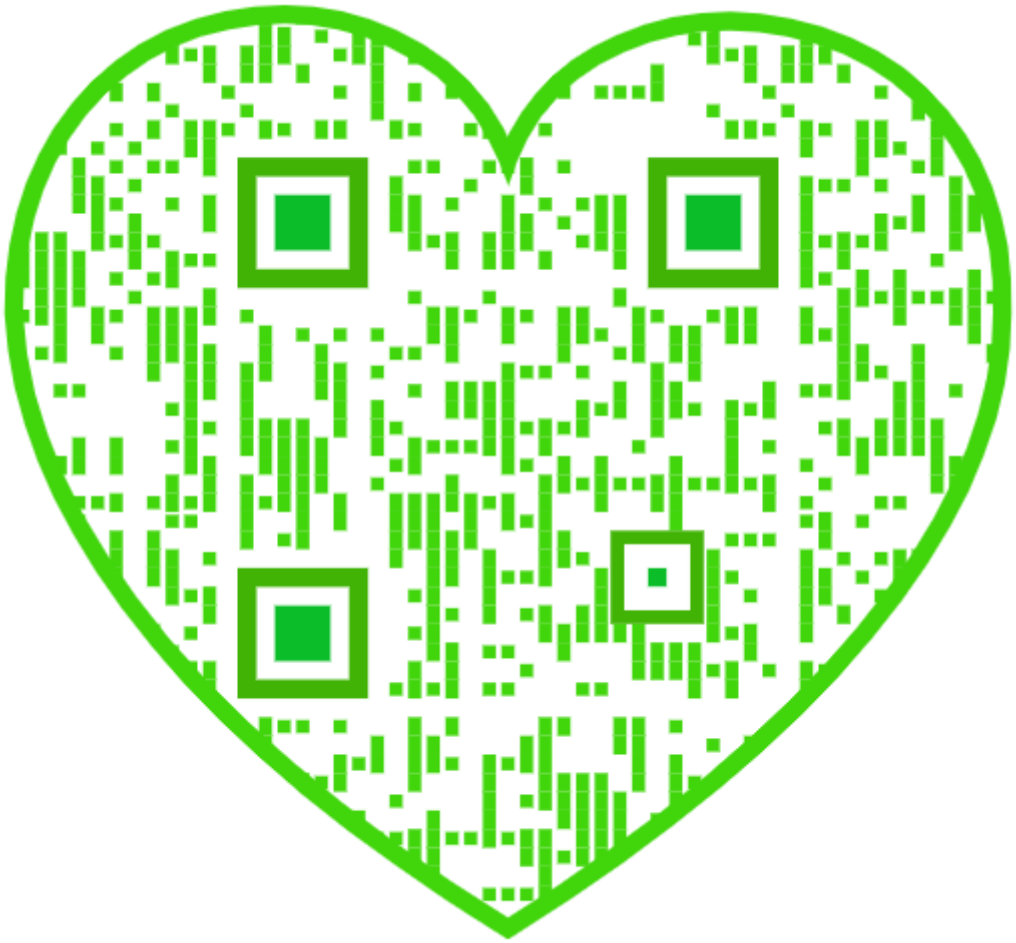

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OUTLINES OF ECONOMICS

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PREPARED BY
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This outline is intended to serve as a step toward an inductive method in developing some of the elementary principles in economics. This preliminary formulation lacks consistency and proportion, not to mention other deficiencies. It is published now because its usefulness when in mimeographed sheets seemed to justify this more convenient form. It is hoped that before final formulation some of its deficiencies will be eliminated through further experimentation and revision.

Acknowledgment is made to Professor F. M. Taylor for many questions, and to Professor T. N. Carver for suggestions on conservation of human energy and on ideals of distributive justice.

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A. INTRODUCTORY

I. Preliminary

II. General Survey

I. Preliminary

Economics is one of the social sciences. These social sciences treat of men living together in society. They seek to analyze the existing situation, to explain the forces now operating. Since society is always in a state of change and evolution these social sciences study a *process* rather than merely a static situation. None of these social sciences can be sharply differentiated from another. They overlap. They are merely different points of view in studying one and the same thing, society.

Economics has as its task, or as its viewpoint, the analysis of the activities of men in the process of getting a living—in the process of attempting to satisfy their wants. This means that we shall study (1) the nature of wants and the application of goods to their satisfaction (generally called *consumption*); (2) the bringing into existence of the means of satisfying wants (generally called *production*); (3) the valuation set upon goods in the process of exchanging them (generally called *exchange*); and (4) the apportionment or sharing of these goods among the members of society (generally called *distribution*). Of course some wants are satisfied without effort on our part, e.g., our want for air. As such cases present no problem, the economist does not concern himself with them. In most cases, however, nature does not spontaneously satisfy our wants, and this one commonplace fact goes far to explain human activity along all social lines.

Questions

1. Wherein do you think the viewpoint of economics differs from that of political science? of ethics? of aesthetics?
2. Name some of the laws passed by our legislatures that have economic consequences.
3. If man's environment spontaneously supplied means of satisfying all his wants without effort on his part, would there be such a thing as theft?
4. Can you name other social phenomena and problems which arise largely from the fact that nature does not spontaneously satisfy our wants?

5. What do you consider the ten most important questions of the day? How many of these involve economic matters?

6. Would far-reaching economic changes, such as the change from good times to hard times, be likely to have political consequences? Would such changes be likely to affect the average man's attitude toward life?

7. Do you believe that you can form a satisfactory judgment upon a given historical period, e.g., the colonial period in America, without having a knowledge of the economic conditions of the time?

8. "In the effort better to satisfy our wants several things might be done: (*a*) diminish the number of our wants; (*b*) change the character of our wants, e.g., develop altruism; (*c*) provide for larger production and better distribution of wealth." Are any of these being done today? What part of the problem falls to the economist?

9. Try to estimate how large a portion of our life is given over to the attempt to satisfy economic wants.

II. General Survey

1. *The Evolution of Industrial Society*

2. *Analysis of the Present Industrial System*

A view of a machine as a whole aids in understanding the functions of the parts. A brief general survey of the modern industrial system, showing how it originated, how it developed, and its form at the present time should be of assistance in the later detailed study of its operations.

1. The Evolution of Industrial Society

There is continuous change going on in industrial society. The economic organization which prevails in the United States at the present time is in many essentials very different from that which prevailed in the early colonial days or at the outbreak of the Revolution, or even fifty years ago. Fifty years from now it may be very different from what it is today. These changes are the result of many and complex forces such as natural forces and conditions, human motives, social institutions, etc. In it all the economic point of view is prominent—the effort to devise better methods of enabling us to satisfy our economic wants.

As industry has developed from the earlier forms to the present form there has been a continuous tendency toward specialization. Occupations have become differentiated, division of labor has increased, productive processes have become more efficient as well as

more complex, and the time which elapses between the beginning of the production of a good and the consumption of that good has been greatly lengthened. Without attempting to press too far into the origins of society we may distinguish four main stages of development, from the point of view of industrial society: (1) The independent or domestic economy; (2) the town or local economy; (3) the national economy; (4) the international or world economy.

The first stage is illustrated by the Indian, the patriarchal family, the primitive tribe, or the western pioneer. The wants in each of these cases were supplied by the products of their own efforts without any very round-about process. The next stage appears where an exchange of products becomes customary. Division of labor takes place. The process of production is lengthened in time and it becomes more efficient, thus making it possible for a given area to support a larger population. Then as means of transportation improve, one section of the country begins to specialize in one thing and another section in something else; they are no longer independent self-sufficing units; the process of production becomes more complicated; and we have the growth of a national economy. Sometimes this process of specialization may be carried so far that a whole nation comes to specialize in manufacturing, and becomes very largely dependent upon other countries for its raw material and food supplies, as in the case of Great Britain today. Such a situation may well be called an international economy. The present tendency toward this stage is manifested in the increasing dependence of modern nations upon foreign supplies and foreign markets.

These stages of economic development have appeared in different countries at different times; in some places one stage continued dominant for many centuries, as in parts of Europe; in others a stage may have lasted but a few decades, as in the United States. There are many intermediate stages, and one seldom finds a situation where the household, the locality, or the nation is absolutely self-sufficing.

Questions

1. Suppose that in the pioneer stage in Illinois all the people except one family had left the country. Could that family have satisfied its wants as well as before? How would such an event affect the satisfaction of your wants today?

2. How did the Illinois pioneer of 1820 get the clothing worn by his family? Why does not the Illinois farmer of today use the same method?

3. There were formerly many more "jacks of all trades" than there are now. Why?

4. Are any industries today in the handicraft stage?

5. Mention some concrete cases where (1) the development of transportation and communication, (2) natural forces, (3) social institutions, (4) racial characteristics, have influenced the evolution of industrial society.

6. In the evolution of industrial society trace some of the manifestations of (1) specialization and division of labor; (2) social interdependence; (3) complexity of form; (4) increased productive efficiency.

2. Analysis of the Present Industrial System (briefly and provisionally treated)

Nothing but the briefest preliminary survey can be attempted at this point. The modern system is the result of a development. It may be likened to a great machine, infinitely vast, endlessly complex, and remarkably efficient in spite of its numerous defects. The industrial society of today is an exchange society which has as characteristic features private property, individual initiative, competition, specialization, large-scale production, and a capitalistic character of production. The processes of this society are not separate and distinct, but interacting. For example, while goods are being produced the distributive process is taking place at the same time. There is not and cannot be any sharp line between the productive process, exchange, and the distributive process.

Questions

1. Trace in detail and from the very first the processes which have to be gone through to supply your want for a cup of coffee. How many people do you suppose helped in that process? Point out "production features," "exchange features," and "distributive features" in the process. Do you think it desirable to be dependent on so many people in the satisfying of your wants?

2. Why go to work to make a machine to make a machine to make a machine to produce a pair of shoes? Would it not be better to avoid all that roundabout process and have a cobbler make them in the first place?

3. Do the following aid in the satisfying of wants: the railroad, the post-office, the miner, the policeman, the law court, the newsboy, the weather reporter, the agricultural experiment station, money, a stock certificate, a corporation, a bank, a patent, a wholesale grocery, a valet, a ragpicker?

4. Classify the above (in question 3) according to whether they

contribute to (1) the productive process, (2) the exchange process, (3) the organization process.

5. Suppose all the railroads in the country were removed, how would that affect the efficiency of the industrial machine?

6. Should you agree that the entrepreneur (1) *directs* industry, (2) *directs* distribution?

7. The payment of wages in money is possible only in an exchange economy. Discuss the situation of a coal miner under a system in which his wages could consist of only the goods he produced. Could coal be used as fuel to any general extent under such conditions?

8. "Exchange does not really help. Indeed it hinders. Time and energy are spent in merely passing goods on." Do you agree?

9. Suppose you were to form a corporation to manufacture candy. Make a generalized list of the things you would do the first year.

10. Classify the above things according to whether they are parts of (1) the productive process, (2) the exchange process, (3) the organization process, (4) the distributive process.

11. Has the institution of private property always existed? If not, when did it arise, and why?

12. How does it happen that we do not have the state look after the supplying of our wants instead of relying on individual initiative? Do you know of any case where the state does carry this burden?

13. Was there formerly the gulf between the laboring class and the employing class that exists today?

14. Formerly a cobbler owned his own shop and tools, managed the shop, employed apprentices, and did some of his work himself. How does the modern large shoe factory differ from that? Does it illustrate specialization?

15. Do you think the modern organization of industry requires greater managerial skill and ability than formerly, and if so why?

16. Do the captains of industry of today usually own the concerns they manage? What was the situation in earlier times?

B. ECONOMIC WANTS, MOTIVES, AND CHOICES

I. Analysis and Definition

II. Means of Satisfying Wants

I. Analysis and Definition

Since political economy is concerned with the effort to satisfy wants, some idea must be gained of the characteristics of wants, motives, and choices. This section of the work is, of course, largely a discussion of social psychology. Our main concern is with the consequences of this psychology in so far as these consequences are economic.

Questions

1. Try to draw up a classified list of our wants. Are they confined to things which enter into commerce? Are they confined to material things?

2. In the case of most of our wants it is said that a "law of diminishing utility" or "law of satiety" applies.

a) State this law, giving particular attention to a formulation of the conditions under which it is true.

b) What practical results of the working of this law appear in the industrial world?

3. It is said that "the sum total of human wants cannot be sated."

a) What evidence can you advance concerning the validity of this statement?

b) What practical results of the working of this law appear in the industrial world?

4. It is said that "wants are determined largely by social standards."

a) What evidence can you advance concerning the validity of this statement?

b) What practical results of the working of this law appear in the industrial world?

5. Are our wants wholly under the control of our reason? Do we always desire those things which are beneficial? Worthy? Can

you give cases where wants seem to flow from the action of habit? Custom? Social inheritance? Instinct?

6. Would it be safe to assume that men always pass an intelligent judgment upon the advantages and disadvantages of any course of action? Is it safe to assume that men are guided solely by intelligent self-interest? To what extent are they so guided? Can you cite instances where the situation you believe to exist in this matter affects men in their economic relations?

7. Are you able to satisfy all your wants? Does law or social custom prevent you in some cases? Would you have sufficient purchasing power to do so in any case?

8. Since you must make choices, you probably seek first to gratify your most pressing desire, x. Can you tell why x is the most pressing of your desires?

9. Do people actually apportion their expenditures for the articles they buy in accordance with their abstract opinions of what would be judicious expenditure?

10. Suppose you had $100 to spend. Would you spend all of it at once? What would you buy? Would you buy the same things at all times and under all circumstances?

11. If you had $200 to spend, would you include among your purchases all the things you would have bought for $100?

12. A has an annual income of $600 and expends 20 per cent for v, 35 per cent for x, 30 per cent for y, 15 per cent for z. B has an annual income of $60,000. Will his expenditures be in the same proportion? Why? Give concrete illustrations?

13. Make a list of reasons why men engage in production. Is altruism sometimes a cause?

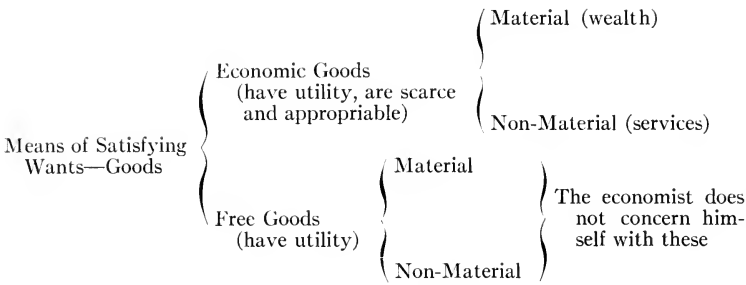
14. Is love of power a motive that leads men to produce wealth? Should the economist deal with this?

15. Do many men, because of patriotism, remain in one country when they would fare better in another? Should the economist deal with this?

16. Should the economist deal with "economic wants, motives, and choices," or with all wants, motives, and choices which have economic significance? Is economics the only science which is concerned with human wants?

II. Means of Satisfying Wants

Means, whether material or non-material, of satisfying wants are called *goods*. These goods, when utilized by man, yield utility or the capacity to satisfy wants. The following diagram is a descriptive classification of goods.



Questions

1. Does every good possess utility? Is everything which possesses utility a good?

2. Have the following utility: whiskey, a gambler's pack of cards, clothes of an obsolete fashion, opium, grand opera, air?

3. Make a list of things which are clearly wealth.

4. Make a list of things which are clearly not wealth.

5. Make a list of things concerning which you are in doubt as to whether they are wealth.

6. Define wealth.

7. Are the following wealth: an ocean steamship; a pleasure yacht; a ship on the bottom of the ocean; gold in the mine; gold, to a shipwrecked sailor on a desert island; a wooden leg; health; eyesight; a waterfall; a head full of useful knowledge; water?

8. "A thing may be wealth and not be useful, e.g., an old stone prized by a collector." Comment.—T.

9. "To be wealth a thing must be scarce." Is that equivalent to saying that the less we have of things the better off we are? Is wealth the ultimate measure of well-being? Does "scarce" mean "rare"?

10. If wealth increases will there be greater well-being? What is the relation of wealth to well-being?

11. Is an encyclopedia wealth? Among Indians?

12. Give examples of wealth which never becomes a direct source of gratification, but the possession of which is greatly prized. Why so prized?

13. From the point of view of the economist could you accept as a definition of wealth—

a) Means of satisfying wants.

b) Things which make for welfare.

c) Material things having value.

d) Material means of satisfying wants.

e) Material things upon which labor has been expended.

14. Do we measure wealth in terms of physical units, or in terms of value?

15. Suppose *x*-power were produced at one-fourth the cost of steam-power. Effect upon the wealth of the country? Upon certain parts of that wealth?

16. "There are many evidences that men are mostly fools, but none better than the fact that a diamond no larger than a small pea and of no use save to satisfy the silliest of wants will sell for perhaps $5,000, while a bushel of wheat, capable of sustaining a human life for several weeks, sells for 80 cents." Comment.—T.

17. Could a thing that was wealth at one time cease to be wealth at some other time? Could the reverse be true? Why?

18. If a coat should go out of style would it still be wealth?

19. Make a list of non-material economic goods.

20. Make a list of non-material free goods.

21. Should the economist be as much concerned with non-material as with material economic goods? Can we say that one is more important than the other?

22. What distinguishes wealth from services?

23. Should we consider services which have a tangible result more important than those which do not? Give several illustrations of each kind.

24. When a U.S. gold certificate is destroyed is wealth destroyed?

25. Is a railroad bond wealth? A patented invention? A fire-insurance policy?

26. Are the following wealth: A court-house; a warship; a city hall; a public library? Are they private property?

27. How do you distinguish between social wealth and private wealth? Does social wealth include more than private wealth?

C. THE PRODUCTIVE PROCESS

I. The Meaning of Production
II. Natural Agents and the Productive Process
III. Labor and the Productive Process
IV. Capital and the Productive Process
V. Organization and the Productive Process

I. The Meaning of Production

Production is the bringing into existence of economic goods. As has been seen these goods may be material or non-material, and it is not possible to say that one form is more important than the other. Of course, the productive process does not exist as a thing in itself, separate from the exchange and distributive processes. A more accurate statement would be that we are now about to study industrial society *from the point of view* of the productive process. In dealing with complex and interacting phenomena it is necessary to resort to such abstractions chiefly as a method of exposition.

Questions

1. Give examples of the creation of form-utilities; of place-utilities; of time-utilities; of possession-utilities.
2. Is a railroad an instrument of production, or of the "distribution of wealth"?
3. Are the following enterprises productive: cold storage; the express business; the mail service; the telephone service; a retail candy business; speculative buying of grain to be held for a rise in price?
4. "Exchangers, merchants' middlemen, are non-producers, mere parasites on industry." Comment.—T.
5. "Exchange gives no gain except to one of the parties and then only on condition that the other loses something." Comment.—T.
6. "Only agriculture and mining are truly productive; for they alone add to the sum total of wealth." Comment.—T.
7. Do social conditions influence production? If so, give concrete examples.

8. Can you establish which is the more important factor in production: human ability or the responsiveness of our surroundings?

9. Can one establish that nature aids more in one industry than in another?

10. Production has been classified descriptively as follows:

A. Material production
   a) Mere occupancy
   b) Extractive industries
   c) Manufacturing
   d) Transportation

B. Non-Material Production
   a) Ideas with economic consequences
   b) Work of credit institutions
   c) Services, e.g., work of domestics, teachers, etc.

Draw up a classification of your own.

In secs. II, III, IV, and V (under C) we shall be concerned with an analysis of the various parts or agents of the productive process. Much of the matter to be presented is descriptive rather than strictly logical, and much of it has to do with the technique of industry. In dealing with these agents of the productive process we may take either the social or the pecuniary point of view. The social point of view surveys those characteristics which apply to society as a whole and which would be apt to be true under any organization of society. The pecuniary point of view surveys the characteristics due to the institution of private property. It is concerned with what is for the interests of the individual. This may or may not be for the interest of society as a whole. Both points of view must be included in a comprehensive survey of the situation as it exists today. We must learn to distinguish what is "social," what is "pecuniary," and what is "both social and pecuniary." The two points of view are not necessarily antagonistic.

II. Natural Agents and the Productive Process

1. *Meaning of Natural Agents*
2. *Land and the Productive Process*
   a) The function of land in the productive process
   b) The future of production as determined by land
      i. Physical limitation of land
      ii. Exhaustion of powers
      iii. The law of return. This law is discussed here as applying only to land. A wider application of the principle will be made later under the topic of organization.

Questions

1. Cite concrete cases where the following natural agents are of importance in the productive process: adhesion, cohesion, gravitation, geographical situation, geological conformation, sunlight, climate, fertile soil. Mention other natural agents and show their connection with the productive process.

2. Do the natural resources influence the development of industries in a country? How have they affected the industries of the United States?

3. What are the chief natural resources of the United States? In respect of what resources is the United States pre-eminent?

4. What natural agents mentioned in Question 1 may be termed free goods? Do we need to discuss these in detail? Why?

5. In his practical discussion of "natural agents" the economist narrows the term to mean what is generally known as land. Justify this.

6. Of what use is land to the lumberman? to the manufacturer? to the shop-keeper? to the traveling salesman? to the fisherman? to the aviator?

7. Is land necessary to all production? How about the services of the domestic servant?

8. Generalizing your answers to the two preceding questions, what do you think are the fundamental uses of land in production?

9. Is there any limit to the amount of land?

10. What is made land? Can land be made by draining; irrigating; fertilizing; addition of sand or clay?

11. Are there "original and indestructible powers of the soil"? If so, what are they?

12. Why does any farmer cultivate more than one acre?

13. Why are different qualities of land under cultivation?

14. From your reading, work out a statement of the conditions under which the law of diminishing returns applies.

15. Does this law apply to land only in the case of its use for agricultural purposes?

16. Does the law of diminishing returns apply to a coal mine? to building land in the center of a city?

17. Work out a demonstration of the fact that the productivity at the extensive margin equals that at the intensive margin.

18. "Agriculture in Michigan is in the stage of diminishing returns, for the land is worn out." Does this prove the assertion made?—T.

III Labor and the Productive Process

1. *Definition*
2. *The Elements of the Labor Power of a Community*
3. *The Need of Conservation of Human Energy*
4. *The Increase of Population*

NOTE.—In the detailed analysis of these items below consider what factors would be likely to hold true in any organization of society.

1. The Definition of Labor

Questions

1. Should the effort of a dray-horse be called labor?
2. Should you call the hod-carrier a laborer if he worked for pleasure? Should you call the college football player a laborer if he were given his board?
3. Draw up a series of instances which are clearly labor.
4. Draw up a series of instances which are clearly not labor.
5. Draw up a series of instances concerning which you are doubtful as to the classification.
6. Is the effort of the following to be called labor: a banker, a college football player, a professional baseball player, a promoter, an opera singer, a hod-carrier, a preacher, a voluntary settlement-worker?
7. In the light of the preceding questions how should you define labor?

2. The Elements of the Labor Power of a Community

a) The number of laborers (See the topic "Increase of Population" below.)
b) The efficiency of each individual
  i. Health and strength
  ii. Mental qualities
  iii. Moral qualities
  iv. Social conditions
c) Time of labor
d) Division of labor (treated under "Organization")

Questions

1. Cite instances where each of the factors mentioned in the above analysis would have a bearing.

2. Take up each of these elements of labor power and discuss the changes that may be expected in it in the future.

3. The Need of Conservation of Human Energy

EXAMPLES OF THE WASTE OF HUMAN ENERGY

a) *Destructive Occupation*

i. Criminal classes; persons consciously or unconsciously engaged in work contrary to public interests.

ii. Child-laborers; women working under unsuitable conditions; persons in unhealthful or hazardous occupations.

b) *Dependency*

The unemployable—defectives; degenerates; invalids; persons temporarily ill or disabled.

c) *Idleness*

i. The unemployed

ii. The voluntarily idle

d) *Inadequate Occupation*

The imperfectly employed—uneducated persons; persons in occupations unsuited to their capacities, as result of ignorance, thoughtlessness, conventions, or lack of opportunity; dilettanti.

e) *Inadequate Care of Public Health and Public Sanitation*

f) *Debauchery*

Questions

1. Analyze the causes for the different forms of waste, and point out in each case promising means of reform.

2. Which do you consider more important: conservation of human energy or conservation of natural resources?

3. Is a waste of labor power involved in (*a*) the care of the sick; (*b*) the care of persons too young to work; (*c*) the care of persons too old to work; (*d*) compulsory school attendance; (*e*) premature death; (*f*) militarism?

4. What judgment, considering the matter from an economic point of view alone, is to be passed on an idle rich man?

5. Is it possible to tell by a man's earnings whether he is (*a*) destructively employed; (*b*) imperfectly employed?

4. The Increase of Population

a) *Natural Increase*

b) *Immigration*

The theory of population has commonly been discussed as if it were essentially the explanation of the number of laborers, because

the supply of labor has some relation to the total population. In deference to that usage it is introduced at this point; though properly the problem of population is much broader and involves man as a consumer as well as a producer

Populations are increased (*a*) by excess of births over deaths, or natural increase, and (*b*) by excess of immigration over emigration.

a) Natural Increase of Population

QUESTIONS

1. State in your own words the Malthusian theory of population.
2. When was Malthus' *Essay on the Principle of Population* published? Was the increase of population greater cause for concern then than now? Why?
3. What are positive checks? Preventive checks? Has the working of these checks changed since Malthus wrote?
4. Does the phenomenon of "race suicide" disprove the Malthusian theory?
5. "During the last century population has increased at a rapid rate and yet the per capita food supply has increased. Evidently there is something wrong with the Malthusian doctrine or with the law of diminishing returns." Do you agree?

b) Immigration

Migration, as a phenomenon of population, includes internal migration (as in the case of persons leaving the country for the city), and also the migration over sea, or across national boundaries, which we call emigration and immigration. Immigration, notably conspicuous in the United States, calls for special comment at this point because of its bearing upon American labor conditions.

QUESTIONS

1. Name the more important motives by which persons are (*a*) caused to leave the country of their birth; (*b*) attracted to other countries.
2. Give examples from the experience of this country of types of immigrants whose coming has been due to the several causes indicated in your answer to the preceding question.
3. Explain the great fluctuations of the movement of immigrants to the United States since 1820.
4. What great change in the prevailing character of our immigrants has occurred within the last generation?
5. It is argued that cheap immigrant labor is like machinery—

an added aid in production which relieves the (native) laboring class from heavy and disagreeable toil. Is the analogy true?

6. Is the manufacturers' argument for cheap immigrants valid from the point of view of society in general?

7. Should immigration be prohibited? restricted? If restrictions are imposed, should they limit the number of immigrants, or fix a test of the quality of immigrants, or do both?

8. Why is the immigration of the Chinese subject to special restrictions?

9. Would restriction of immigration be justified if the congestion of immigrants in cities and along the seaboard could be prevented, and the foreign elements distributed over the whole country?

10. Walker contended that our population is no larger today than it would have been if there had been no immigration. Can this be true? Tell why you answer as you do.

IV. Capital and the Productive Process

1. *The Definition and Function of Capital*
2. *The Increase of Capital*

1. The Definition and Function of Capital

From the social point of view capital may be defined as the material instruments which man uses in production. The question of who *owns* these instruments or whether anyone owns them matters little. They may be owned by private individuals or by the state—they are still aids in production. From the pecuniary point of view capital is material goods which yield an income. This will include producers' goods, but also some consumers' goods (Cf. Carver, *Distribution of Wealth*, chap. iii). As we are now concerned with the productive process we shall, for the present, consider mainly the social point of view.

Questions

1. Make a list of things which are clearly capital.
2. Make a list of things which are clearly not capital.
3. Make a list of things concerning whose classification you are in doubt.
4. Are the following capital: pig iron; a plow; candy on the shelves of a retail dealer; a package of tobacco belonging to a laborer; a carriage; coal?
5. Capital has been variously defined, with reference to production, as follows: Wealth (excluding land) devoted to the further produc-

tion of wealth; past products devoted to further production; inchoate wealth; intermediate products; producers' goods; future goods; wealth (excluding land) devoted to further production. Can you reconcile these definitions?

6. Does capital really produce? How?

7. Name some employment, if you can, in which labor produces without capital.

8. The process of producing with the aid of capital has been called indirect or roundabout production. Why?

9. It has been said that the intention of the owner determines whether a thing is capital or not. Could a cotton mill be a consumers' good? Suppose the owner exchanged it for a country house; would the mill then be capital?

10. Mr. X is so skilful in forging steel instruments that he can earn $12 per day at it. Is his skill capital?—T.

11. "Patti used her voice to earn her living just as a carpenter uses his tools to earn a living. Her voice was therefore her capital." Comment.—T.

12. Is money capital?

13. Are securities capital?

14. Capital is subdivided into fixed and circulating capital; specialized and free capital. Give examples of each sort of capital.

15. Wherein does the conception of capital above presented differ from that of the business man?

16. Summarize the points of difference between capital and land.

2. The Increase of Capital

This depends upon:

a) The size of the savable fund.

b) The effective desire of accumulation.

Questions

1. Is the effective desire of accumulation stronger in the United States or in Central America? Why?

2. "The secret of Holland's great commercial prosperity at the present time (1680) is the low rate of interest prevailing in that country. Her merchants can get all the capital they want at 3 per cent. while ours pay 6 and 7. If Parliament would by law prohibit any rate above 3 per cent. we should soon overtake, or even outstrip our rivals." Comment.—T.

3. What economic results would ensue if the charging of interest were prohibited by law?

4. What is it that prevents capital from increasing indefinitely? Provided the disposition to save remains the same, would as much be saved if the return to capital and labor constantly diminished?

5. Does the necessity of saving exist because of the present organization of society? Would there be "saving" in a socialistic society? If so, who would do the saving;

6. A man increases his capital by saving, which involves diminution of his consumption, but his capital can be used only by being consumed. Explain.

7. Capital is the result of saving; capital is produced by labor; all capital is consumed. Can you reconcile these propositions?

8. "Capital, though saved, and the result of saving, is nevertheless consumed. The word saving does not imply that what is saved is not consumed, nor even necessarily that its consumption is deferred." Explain. Who is the consumer? Is the consumption usually deferred?

9. It has been said that the original formation of capital is due to abstinence or saving, but its permanent maintenance is not. What do you say to either statement?

10. Distinguish between saving and hoarding.

11. Is the miser or the spendthrift the more useful member of society?

12. "The Chinaman lives economically. He saves and takes his savings back to his native land. Instead of being a wealth producer he acts as a leech upon the wealth of the nation, sucking in all that he can and taking it away to enrich the land of his ancestors. Better a band of spendthrifts than a colony of Chinamen." Comment. —T.

13. "Extravagance, when practiced by millionaires, is a blessed thing. It causes a freer circulation of money, affords the laboring man work, feeds women and children, and affects, in fact, every industry, no matter how small." Do you agree?

14. "If a municipality could by contract get a task done for $10,000, but by hiring labor to do it could get it done for $40,000 it might still be wise to use the second plan. The money would still be in the city—and more of it than by the first plan." Comment. —T.

15. A recent Secretary of the Navy, in defending large naval appropriations, wrote as follows: "It is a taking thing to say that $100,000,000 could be better spent for education or charity; and yet, on the other hand, $100,000,000 spent in the employment of labor is the very best use for which it can be spent. There is no charity in the interest of the popular welfare or of education so valuable as the employment of labor." Comment.

16. Should we naturally expect a great fire to increase the amount of employment for working men generally? Explain.

17. Speaking of the Galveston flood, a writer said: "Fortunately,

such events are not unmixed evils. Employment will now be found for many laborers and this benefit should not be forgotten or minimized by us." What do you think of the statement?

18. Is a football celebration which results in the breaking of $200 worth of windows advantageous to laborers in general? —T.

19. Is it advantageous to laborers, temporarily or permanently, that there should be (1) large government expenditures for military purposes; (2) large government expenditures for improvements in transportation; (3) luxurious expenditure by the rich; (4) savings by the rich? (You are free to discuss these separately, or as one general question.)

20. We often speak of withdrawing capital from one industry and putting it into another. What does this mean? How is it done?—T.

21. "This equalizing process, commonly described as the transfer of capital from one employment to another, is not necessarily the slow, onerous, and a most impracticable process which it is often represented to be." What is the equalizing process? and why is it or is it not slow and onerous?—T.

V. Organization and the Productive Process

1. *The Régime of Exchange-Co-operation*
2. *Specialization*
3. *The Apportioning of the Productive Factors*
4. *Present Forms of Industrial Organization*
5. *Modern Organization Exemplified by Certain Industries*

In the discussion of Land, Labor, and Capital in their relation to the productive process the main attention was given to facts and principles which would hold true under practically any organization of society. The problem now before us is to examine the main facts of the *present* organization—to see how the forces we have been discussing are actually utilized today. This present inquiry is not an inquiry into the wisdom or lack of wisdom of the present organization. It is merely an inquiry into the facts.

1. The Régime of Exchange-Co-operation

Everyone appreciates that the modern industrial society is an "exchange-society." Practically no one produces all, or even many, of the things he consumes. It is not as generally appreciated as it should be that this is in reality a process of co-operation, none the

less real because carried on unconsciously. No formal machinery has been set up as a conscious act, but, as Professor Taylor says, our co-operation is both *effected* and *regulated* by exchange.

Questions

1. Why does not everyone make the same commodity?
2. How does it happen that the things produced are generally the things we want?
3. Show how our co-operation is effected through exchange.
4. Show how our co-operation is regulated by exchange.
5. Adam Smith, in a famous passage in *The Wealth of Nations*, observes that every individual who, in pursuit of his own gain, directs his industry in such a way that the product may have the greatest possible value, is "led by an invisible hand" to promote unintentionally the public welfare. Should you accept as true the implication that exchange-co-operation completely reconciles the interests of individuals and the community? Are individuals ever rewarded for actions which yield a present benefit to some, but are in the long run detrimental to society?
6. Mention some of the advantages of exchange-co-operation.

2. Specialization

a) *The Separation of Occupations*
b) *The Division of Labor*
c) *Territorial or Geographical Specialization*
  i. Grouping of related industries
  ii. Grouping of many plants of the same industry
d) *How Far Specialization Can Be Carried Depends upon*
  i. The nature of the industry
  ii. The extent of the market (Note the relation of transportation to the extent of the market.)
  iii. Social institutions
  iv. Financial organization

Questions

1. Do the advantages of specialization apply to the use of capital and land as well as to the employment of labor?
2. Give examples from your own observation of (*a*) the division of labor; (*b*) territorial grouping of related industries; (*c*) territorial grouping of plants of the same industry.

3. What were the motives that led to the specialization you have mentioned in answering questions (*b*) and (*c*) under (2)?

4. Why can more be produced when the different operations are divided among many persons?

5. Give concrete examples of cases where specialization is limited by the nature of the industry itself.

6. Can specialization be carried as far in bicycle repair shops as in bicycle manufacturing? Why or why not?

7. Show specifically how specialization has depended on the widening of the market.

8. Is it in general more true that widening markets have led to specialization, or that the increased productivity of specialized industry has enlarged markets?

9. Now-a-days one machine completes the process of pin-making which in Adam Smith's day occupied ten men. Has there been an increase or a decrease in specialization?

10. What new forms of specialization and what enlargements of the market accompanied the transition from the handicraft system to the factory system?

11. Show how specialization of industry in respect to (*a*) products and (*b*) location, is related to the development of transportation.

12. Cite instances where social institutions affect the degree of specialization.

13. Show the relation of financial organization to the extent of specialization.

3. The Apportioning of the Productive Factors

The question of the apportioning of the productive factors is simply a question of the law of return. Up to the present time the law of return has been discussed in its application to land alone, and that under very rigidly assumed conditions. It is now to be noted that this law is one of general application. In discussing it the following distinctions must be considered:

a) What is the unit of which the productivity is being studied?
   i. A single instrument (instrumental returns)
   ii. Some industry taken as a whole (industrial returns)

b) What conditions are assumed as regards methods?
   i. Unchanged methods (static laws of return)
   ii. Progress (dynamic laws of return)

c) Are we employing measures of number and quantity, or value?
   i. As regards the product
   ii. As regards the productive factors

Questions

1. In what aspects does the principle of diminishing returns present itself to the business man today?

2. Give a concrete example of the way in which the principle of diminishing returns is taken into consideration by (*a*) the farmer, (*b*) the man who intends to build a skyscraper on a city lot, (*c*) the manufacturer of shoes.

3. "This land used to produce 25 bu. per acre at 5 days' cost. Now it takes 7. That is, diminishing returns have set in." Point out the mistake. —T.

4. A certain telephone central has switchboard equipment which took care of 900 subscribers at a total cost of $4,700 per annum. To care for 950 would cost $4,850. At what stage of returns is the plant?—T.

5. A certain engine has been in use for ten years so that its capacity to furnish power from a given amount of fuel has fallen off. Is that the same as saying that the engine is in the condition of diminishing returns?—T.

6. Canada can produce wheat at 50 cents a bushel while we cannot produce it for less than 75 cents. Consequently Canada will inevitably drive us out of the world-market for wheat. What principle is overlooked here?

4. Present Forms of Industrial Organization

a) *Private Property and the Competitive Régime*
b) *Entrepreneurship and Capitalistic Industry*
c) *The Size of the Most Efficient Unit*

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a) *Private Property and the Competitive Régime*

Questions

1. Make a list of the various advantages that society in the past has derived from the institution of private property.

2. Make a list of the disadvantages of private property.

3. Is private property a natural, inalienable, inherent right, or a matter of social agreement?

4. Should the institution of private property be modified or abandoned if in the judgment of society its disadvantages outweigh its advantages? Have property-rights been limited in the past?

5. What do you regard as the ultimate justification of private property?

6. Compare the right of inheritance and the power of bequest as motives to industrial efficiency.

7. Does freedom of contract mean freedom to make any contracts one chooses? Is everyone free to run a saloon? to practice law? to establish a department store? to conduct a lottery? to sell cigarettes to minors? to sell himself into slavery? to fix cab-fares?

8. Make a list of practical obstacles, as distinguished from legal restrictions, which limit industrial freedom.

9. Is our present system "industrial anarchy"?

10. Are "*laissez-faire*" and "competitive system" synonymous terms?

11. Should there be any "presumption" either for or against "state interference," or should each case be decided upon its merits? What do you mean by merits?

12. Can you mention cases where the state takes part *directly* in industry today?

13. Are there any ways in which the state aids *indirectly* in industry today?

b) Entrepreneurship and Capitalistic Industry

i. The Individual Firm
ii. The Partnership
iii. The Corporation
iv. Co-operative Enterprise (treated under "Social Reform")

QUESTIONS

1. Indicate the forces which have brought about the development in the form of entrepreneurship from the individual firm through the partnership, to the corporation.

2. Why was it that the corporation did not become a common form of business organization until the nineteenth century? What were the usual forms of organization before that time?

3. What are the chief points of difference between a corporation and a partnership?

4. What advantages has a corporation as compared with a partnership? Are there any respects in which a partnership has advantages not possessed by a corporation?

5. What is a holding company? What are the advantages afforded by this form of organization?

6. Define common stock, cumulative preferred stock, treasury stock, senior bonds, underlying bonds, collateral trust bonds.

7. With the aid of a financial dictionary draw up a list of at least 12 kinds of bonds and explain each.

8. Explain how a corporation secures a charter.

9. A corporation has outstanding $1,000,000 in 5 per cent bonds, $10,000,000 7 per cent preferred stock, and $10,000,000 common stock. Gross annual earnings are $11,950,000; total expenses for the year are $9,900,000, and depreciation of the plant amounts to 10 per cent on a valuation of $11,000,000. What is the amount of net earnings, and how will this amount be distributed among the holders of the different securities?

10. In the case of the corporation described in the preceding question what would be the effect upon the dividends on the common stock if all the preferred stock were converted into 5 per cent bonds? Would this be a wise move if the business were likely to fluctuate so that the net earnings of the corporation would be cut in half?

11. In 1896 the following situation was true:

Company	Common Stock	Dividends
A	$3,000,000	10 per cent.
B	2,000,000	8 per cent.
C	1,000,000	10 per cent.

On January 1, 1897, a holding company, D, absorbs all their stock, and in 1897 D gets, in addition to the former earnings, $500,000 monopoly profits and $100,000 by saving in wastes of competition. What dividends could D pay if its capital stock were $6,000,000? Could D's stock be $3,000,000? If so, how?

12. What is meant by: (*a*) capitalization; (*b*) capitalization on the basis of original cost of production; (*c*) capitalization on the basis of cost of reproduction; (*d*) capitalization on the basis of earning capacity; (*e*) capitalization on the basis of expected earning capacity; (*f*) capitalization on the basis of cash contributed; (*g*) capitalization on the basis of tangible assets?

13. Should the basis of capitalization of a public service corporation be different from that of a private corporation?

14. What difference is there between a corporation which floats stock at par with a capitalization based on earning capacity, and an individual who sells a prosperous business at a high figure because of its being prosperous?

c) The Size of the Most Efficient Unit

Questions

1. Is it likely that large factories will ever be devoted to portrait painting? Give reasons.

2. For which of the following articles is large-scale production

appropriate: hand-made shoes; machine-made shoes; furniture; nails; cut glass; orchids; millinery?

3. Edison proposes to develop a method of housebuilding by pouring cement into a set of moulds which may be used over and over. Are such houses likely to be in demand? Why?

4. Generalizing your answers to the preceding questions, what classes of products are likely to be produced on a large scale?

5. The following are sometimes claimed to be advantages of large-scale production: (*a*) saving of cross-freights; (*b*) running plants to full capacity; (*c*) economies in advertising; (*d*) utilization of by-products; (*e*) saving in expenses of administration; (*f*) employment of high-grade technological experts and managers; (*g*) development of foreign markets; (*h*) use of highly specialized machinery; (*i*) control of patents; (*j*) maintaining a private insurance-fund. Do you think these alleged advantages are real?

6. Classify the alleged advantages mentioned in the preceding question, showing the relation of each to (*a*) large-scale production, as attained in a single large plant; (*b*) combination, i.e., unified control of several plants in different localities; (*c*) monopoly; (*d*) integration of industry.

7. Are there any disadvantages in large-scale production?

8. Do you understand that all businesses are destined to become large-scale businesses?

5. Modern Organization Exemplified by Certain Industries

a) *Agriculture*

b) *Transportation* (with particular reference to railroads)

c) *Manufactures* (with particular reference to trusts)

No attempt is made at this point to treat the conditions of modern organization exhaustively. Agriculture, railroads, and the trusts form by no means an exhaustive list. Labor unions, employers' associations, co-operative associations, etc., are also examples of organization but are reserved for discussion elsewhere. The present discussion is designed to cover merely a few illustrative cases.

a) *Agriculture*

This industry is properly called one of our basic industries. It is the source of most of our food supply and also of many of our raw materials for manufactures. The following table gives some indication of the part agriculture has played in the industrial life of the United States.

	1850	1860	1870	1880	1890	1900
Average size of farm (acres)	203	199	153	134	136	146
Total farm area (million acres)	294	407	408	536	623	838
Value of farm real estate (millions)	$3,272	$6,645	$9,263	$10,197	$13,279	$16,614
Value of farm live stock (millions)	$544	$1,089	$1,525	$1,577	$2,309	$3,075
Corn crop (million bu.)	592	839	761	1,755	2,122	2,666
Wheat crop (million bu.)	100	173	288	459	468	659
Cotton crop (million bales)	2	5	3	6	7	10
Percentage rural population of total population	87.5	83.9	79.1	77.4	70.8	66.9

Questions

1. What causes make it possible for the percentage of our population engaged in agriculture to decrease steadily?

2. Why have many people left the farms for other pursuits? Is this migration likely to continue?

3. What reasons can you assign for the fact that large-scale production is not characteristic of this industry? Do you think that the scale is likely to be increased in the future?

4. Agricultural experts tell us that by using present amounts of labor, land, and capital according to the most efficient plans of agricultural organization already known, the productive efficiency in this industry could be doubled in a year. Why is this not done? What forces are making in that direction?

5. Do you think the forces of custom, habit, and inertia are stronger in agriculture than in other pursuits?

6. Exactly what functions do you think the agricultural colleges perform?

7. Explain why land that sold for $2 per acre when it would produce 75 bushels of corn, now sells for $100 per acre when it produces only 40 bushels. If this is characteristic of our agricultural land, has this natural resource increased or decreased?

8. When good means of transportation opened up markets for the produce of the western pioneers, what changes took place in agricultural organization?

9. Under what conditions are we apt to have diversified farming? Single crop farming?

10. Why were there no big bonanza farms when the Middle West was first settled? Why did they appear later? Why are they being broken up today?

11. Why is agriculture in Europe more intensive than in the United States?

12. What inventions and innovations have improved the conditions of farm life in recent years?

b) *Transportation* (with particular reference to railroads)

i. The Development of the Railroad Net
   (*a*) The importance of technical and engineering considerations
   (*b*) The influence of geographical, geological, and climatic conditions
   (*c*) The beginnings of the railroad
   (*d*) The development of the system in the United States
      (i) The great relative importance of transportation in this country
      (ii) The reasons why the development was left to private capital
      (iii) The speculative and feverish character of the building
      (iv) The consolidation movement since 1869

ii. Leading Characteristics of the Railroad Industry
   (*a*) The principle of direct and indirect cost
   (*b*) The many forms of competition
      (i) Of parallel lines
      (ii) Of round-about routes
      (iii) Of other means of transportation
      (iv) Of cities and markets
   (*c*) The quasi-public nature of the industry
   (*d*) The tremendous importance to society
      (i) In strengthening and cheapening the productive processes
      (ii) In equalizing the cost of living in different parts of the world
      (iii) In making concentration of population possible

iii. Results of These Characteristics
   (*a*) The difficulty of arriving at any scientific basis of rate-making
   (*b*) The constant pressure upon managers to develop more traffic
   (*c*) The rejection of competition as the proper means of regulation
   (*d*) The necessity of some form of public supervision

iv. Government Regulation in the United States
   (*a*) Agencies
      (i) State regulation
      (ii) Federal regulation
   (*b*) Periods
      (i) To 1870, the period of governmental favors
      (ii) 1870—, the period of reaction and supervision.

Questions

1. What has been the bearing upon the development of railroad transportation in the United States of (*a*) the multi-tubular boiler; (*b*) forced draft; (*c*) cheapened production of steel?

2. Was the flimsy character of early railroad construction in America beneficial or detrimental?

3. Have American railroads in general followed or directed the course of settlement of the country?

4. Would private capital have been invested in railroad building if the chance of extraordinary gain had been greater in other industries? To what extent may further railroad-building be expected?

5. What was the "Whiskey Rebellion"? If railroads had existed at that time would it have occurred?

6. Are local famines likely to be as serious in the future as they have been in the past?

7. Has railroad transportation relieved or aggravated the problem of great cities?

8. Has the American railroad in greater degree benefited the Dakota farmer or the London consumer?

9. If a railroad is already in existence and trains are running, what *added* cost would the railroad incur if it hauled a five-pound box from Chicago to New York?

10. Would it be good business policy for the road to haul such a box at a rate only a little in excess of this added cost if it could get no more for the service? Would it be good policy to haul all traffic at such rates?

11. Suppose empty cars were being hauled in a certain direction. Would a railroad be justified in offering to haul traffic in that direction at very low rates? If so, under what circumstances? If not, why not? Would your answer be the same from a social point of view as from the point of view of the railroad management?

12. Can you think of any circumstances under which it would be wise (*a*) from the railroad's point of view, (*b*) from the social point of view, for a railroad to charge less than direct cost?

13. In the following analytical table of railroad expenses (dividend payments not considered) column I indicates, by items, the percentage of total expenses which are independent of volume of traffic; column II indicates, by items, the percentage of total expenses which are dependent upon volume of traffic; column III indicates the proportion of total expenses represented by each item. The figures in column III are obtained by adding the figur s of column I and column II.

	I	II	III
Fixed expenses	25	0	25
General operating expenses	3	0	3
Maintenance of way and structures	10	6	16
Maintenance of equipment	7	7	14
Conducting transportation	14	28	42
Total operating expenses	34	41	75
Total	59	41	100

a) From a study of the above table should you expect a railroad to fight strenuously to keep traffic? to gain new traffic? Why do you answer as you do?

b) Work out a concrete case showing that a railroad might be wise in charging only 42 per cent of the *total* cost of hauling. If it did so, would that mean that some other traffic would be charged unduly to make up for it?

14. Work out a concrete case where "cost of service" gives no guidance in rate-making. Do the same for "value of service."

15. Formulate a statement of what "charging what the traffic will bear" means.

16. Rates on California and Florida fruits are made such as to enable these fruits to compete even in each other's territory. How can this be done?

17. Rates on California lemons are made so low that they can compete with lemons from Sicily. Lumber from Oregon competes in Boston with lumber from Maine. How can this be done?

18. Suppose you were a traffic manager and a shipper came to you with a commodity recently brought into market, asking you to name a rate. What conditions should you need to take into account?

19. It is stated that the most serious defect of the Inter-state Commerce Act is the attempt to prohibit, at one and the same time, discriminations and pooling. Explain.

20. Can you apply the gist of the above questions to any modern industry where indirect cost is a large part of total cost?

c) *Manufactures* (with particular reference to the trust)

i. The origin of the trust problem
ii. The trust movement in the United States
iii. The promotion and organization of a trust

iv. Analysis of the causes for the growth of trusts and the results of the trust organization
v. The lines of procedure in dealing with the trust problem

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i. *The Origin of the Trust Problem*

Monopolies of one form or another have existed from the earliest times, but the present-day trust and the problems to which it gives rise are essentially modern. The industrial world is always changing —is in a constant state of evolution. The changes in the industrial world have been taking place so rapidly that our laws, business ethics, and social institutions have fallen behind and have become antiquated. Hence the problem.

Fundamentally the trust is the product of that stage in the evolution of industrial society which ushered in what is commonly called modern capitalistic industry. The movement began in England, where it became known as the Industrial Revolution, and later, through a slow evolution rather than revolution, spread to the other more advanced nations. Improvements in transportation and many mechanical inventions worked together to bring in the factory system, with a constantly enlarging scale of production and ever-increasing severity of competition. The characteristics of this capitalistic industry were first revealed in the railroad business, but soon they appeared in other industries. Among the more important of these characteristics are the following:

a) The corporation, which facilitated the gathering together and direction of the vast sums of capital now required for successful business undertaking, became the dominant form of business organization. Under the corporate form of organization there appears a growing separation between investors and those who control the investment, thus affording the latter opportunity for manipulation, "high finance" methods, etc.

b) Localization of industry became more and more marked with the greater division of labor.

c) Integration of industry went hand in hand with larger scale of production.

d) Fierceness of competition increased as the size of a concern expanded and the number of rivals decreased.

e) Centralization of control was hastened by the growing severity of competition and the hope of monopoly profits.

Out of these conditions came the modern trust.

Questions

1. Explain carefully why each of these characteristics of modern capitalistic industry should lead to the growth of trusts.
2. What is a trust?
3. Are all trusts monopolies? Are all monopolies trusts? Is a trust a corporation, a partnership, an association?

ii. *The Trust Movement in the United States*

The trust movement in the United States may be divided into three periods according to the form of organization which dominated in each.

1870–80, pools; 1880–90, trusts (trustee control); 1890– , corporations, holding companies.

Up to 1897 the number of trusts was comparatively small. Most of the existing trusts were formed between 1898 and 1902, when industrial and financial conditions were especially favorable to their formation. Since 1902 the movement has been much slower.

Questions

1. What is a pool? a trust (in the original sense of the term)? a holding company?
2. Why were the pool and the trust abandoned and the holding company adopted?
3. Is the movement toward combination still going on? Is it likely to continue in the future?

iii. *The Promotion and Organization of a Trust*

Questions

1. What is the function of a promoter?
2. Explain the steps by which a trust is organized.
3. What is meant by the capitalization of a trust?
4. On what basis is the amount of capitalization determined?
5. What is stock-watering? Why is it resorted to?
6. Does stock-watering harm the public? the investor?
7. Would the harm be prevented by full publicity?
8. Explain the work of the underwriter.

iv. *Analysis of the Causes for the Growth of Trusts and the Results of the Trust Organization*

The main causes of the growth of trusts may be stated as—

a) The advantages of large-scale production.

b) The prospect of obtaining exorbitant monopoly profits
  (1) By control of selling price
  (2) By superior strategic position in bargaining, e.g., with the seller of material or with labor, etc.
c) The saving of the wastes of competition, e.g., the better adjustment of production to demand, saving in advertising, etc.

The following have been minor causes:

d) Special privileges, e.g., railway rebates, tariff favors, etc.
e) Methods of competition, e.g., factor agreements and discriminating prices.
f) Promoters' profits, made in organizing trusts.

Questions

1. The following classification of monopolies has been made by Bullock:
  a) Personal abilities
  b) Legal monopolies:
    (1) Private, as patents, copyrights, etc.
    (2) Public, as postal business, fiscal monopolies, etc.
  c) Natural monopolies:
    (1) Control of raw material.
    (2) Consumption limited to locality of the plant, e.g., gas, railways, etc.
  d) Capitalistic monopolies, agreements, pools, etc.

Does this classification satisfy you? Could you contend that capitalistic trusts are "natural"?

2. "The trust carries the germ of its destruction. The alleged advantages of large-scale production are fictitious and the savings of the wastes of competition are more than offset by the wastes of monopoly. Abolish special privileges and improper methods of competition and the trust will die of itself." Do you agree? If you disagree, do you nevertheless see elements of truth in the quotation?

3. "The trust is efficient from the social point of view." Why or why not?

4. "The trust is merely another instrument of capitalistic exploitation." Why or why not?

5. "The trusts of today will lead to the Great Trust, government ownership of all industries." Why or why not?

6. What are the chief advantages of large-scale production? What are the wastes of competition which can be saved? Are either of these gains to be obtained without monopoly?

7. Is the tariff the "mother of trusts"? If not, to what extent is it responsible for the trusts?

8. Would the abolition of the tariff destroy trusts or result in the formation of international trusts?

9. What forms may a railroad rebate take? In what way does it foster trusts?

10. What are factor agreements? Are they harmful?

11. Should the practice of discriminating prices be prohibited? Is this practice confined to the trusts?

12. Do trusts tend to raise prices? By what methods can this be determined?

13. How do trusts affect the bargaining position of the laborer?

14. Are there social or political evils which follow from the growth of trusts?

15. Is the question of the protection of the minority stockholder a "trust problem" or merely a "corporation problem"? If the latter, can you mention other questions which could be grouped with it as being corporation problems?

v. *The Lines of Procedure in Dealing with the Trust Problem*

We have surveyed the origin of the trust problem, the causes leading to the growth of trusts, and the results which follow therefrom. If the causes of the trust are based on social efficiency and if the results are altogether good the trusts should be let alone. If the reverse is true, they should be abolished. If they have possibilities for both good and evil, a policy of regulation which will conserve the good and prevent the evil should be adopted. The wise procedure will be to take advantage of our study of the causes for the growth of trusts and thus strike at the root of the trouble by doing away with such causes as do not lead to a growth based on social efficiency.

Questions

1. What elements of good and evil do you see in the trusts?

2. Which of the above-mentioned policies should be chosen? Why?

3. What has been the policy underlying the trust legislation of this country in the past, and what has been accomplished?

4. Why has not more been accomplished? Was the policy a wise one?

5. Is potential competition an adequate solution?

6. What other remedies have been suggested? Do you believe them to be adequate?

7. Do you think further legislation is needed? If so, what suggestions can you offer for further legislation?

D. EXCHANGE

I. Markets
II. Value
III. The Mechanism of Exchange
IV. International Trade

We have seen that the modern industrial society is an exchange society. In this section we shall study the exchange processes in more detail, or, speaking more accurately, we shall study industrial society from the point of view of exchange. There is, of course, no clear line of demarcation between exchange and the productive process, or between exchange and the distributive process. With such intricate, interacting, and complex phenomena it is, however, good scientific method to take first one point of view and then another, and finally to seek to deal with the matter as a whole.

I. Markets

We have come to *assume* "market" as a factor in our industrial life. We make goods "for the market"; we "go to the market"; we "study the market." These expressions could be multiplied indefinitely. Just what do we mean by "market," and what is the function of the "market"?

Questions

1. When people congregate at a certain place and exchange goods at barter, can we say that they constitute a market?

2. Is it a market when you buy chickens from a farmer out in the country? If so, what constitutes the market? Is it the place? the operation?

3. Is the retail grocery store a market? For whom? Is the *place* the market?

4. Is the wholesale grocery store a market? For whom? Is the *place* the market? Suppose this wholesale grocery keeps no stock on hand but consists merely of an office, an office force, and means of communication with importers and producers and customers, is it a market?

5. Is the office and store of the importer a market?

6. When you speak of the tea market do you mean the retailers' market? wholesalers' market? importers' market?

7. Sometimes a distinction is made between a local market and a world market. What distinction exists? Can you name any goods which have a world market? Any which have a local market? Under what conditions will a good have a local market alone?

8. Is a stock exchange a market? A produce exchange? If so, for whom?

9. Draw up a definition of market.

10. Show how the market, as you have defined it, has a function in the industrial world.

11. When we say we "watch the stock market," just what do we mean?

12. Where is the market that establishes the market price of wheat?

II. Value

1. *The Nature of Value and Price*
2. *Demand and Supply in Relation to Value*
3. *The Marginal Utility Explanation of Value*
4. *Analysis of Demand*
5. *Analysis of Supply*
6. *General Questions on Value*

1. The Nature of Value and Price

The term "value" is used in many senses. Sometimes it is used in a subjective sense, that is, as value-in-use. Sometimes it is used as implying ethical considerations. To the economist value always means power in exchange. To him the study of value is a study of the terms according to which one commodity is given for another and it is also a study of the part that value plays in the economic process.

Price is value expressed in terms of some one good taken as a standard. In our everyday experience with economic matters we are more likely to talk of price than of value.

Questions

1. "Whiskey is not wealth. It has no permanent value for society." In what sense is the term value used?

2. "It was a valuable lesson for me." In what sense is the term value used?

3. A mercantile establishment advertises "the best values in the city." What is meant here by value?

4. Could a thing have value unless desired? unless scarce?

5. Draw up a sentence in which value is used in the sense in which the economist uses it.

6. Would a bag of gold have value to a shipwrecked sailor on a rocky and deserted island? Would a loaf of bread?

7. What good is actually the standard in price calculations today?

8. Just what is a $5 gold piece? If gold should go up in value, would the government put a different quantity of gold in the $5 piece? If wheat should rise in value, would there still be 60 pounds in the bushel?

9. If gold increased so much that its value fell, what would happen to prices?

10. Could *x* change in price and still have the same value relation to *a*, *b*, and *c* that it had before?

11. Can there be a general rise or fall of values as the economist uses the term?

12. Can there be a general rise or fall of prices?

13. If prices fall, is the general wealth of the country any less? Are there as many articles of value as before prices fell?

14. Is value an absolute property of things? Is the expression "intrinsic value" defensible—

a) As an expression meaning the value of the substance of which a thing is made: e.g., "The intrinsic value of a silver dollar is 47 cents"?

b) As an expression signifying that value is inherent in a thing?

15. What is market price? Cite instances where market price remains the same over considerable periods of time. Cite instances where market price fluctuates rapidly.

16. Might farmers accept 3 cents a quart for strawberries sometimes? Do you think they could accept as little as this for every quart they sold and still remain in the business?

17. What is meant by normal price?

18. How could normal price be determined in the case of a commodity in the production of which much machinery is used; especially if improvements of the machinery are being rapidly and continually invented and applied in new plants or in the newer machines of established plants?

2. Demand and Supply in Relation to Value

The answer to the questions "Why does so much of this commodity exchange for so much of that? Why not for more? Why not for less?" is to be found in the relationship existing between demand and

supply. Since the factors which go to make up demand and those which go to make up supply are exceedingly numerous and intricate, a discussion of these determinants is postponed to secs. 4 and 5 below. At present we shall simply *assume* a certain demand and a certain supply and we shall study the result in value relations.

If we were omniscient we could tell how many units of a good would be demanded in a community at different prices. Suppose it ran as follows:

At	1c.	per	lb.	there	would	be	taken	1,000	lbs.
"	2c.	"	"	"	"	"	"	900	"
"	3c.	"	"	"	"	"	"	800	"
"	4c.	"	"	"	"	"	"	700	"
"	5c.	"	"	"	"	"	"	600	"
"	6c.	"	"	"	"	"	"	500	"
"	7c.	"	"	"	"	"	"	400	"
"	8c.	"	"	"	"	"	"	300	"
"	9c.	"	"	"	"	"	"	200	"
"	10c.	"	"	"	"	"	"	100	"

(This is a demand schedule. If plotted, it would give a demand curve.)

If we were omniscient we could tell how many units of a good would be supplied in a community at different prices. Suppose it ran as follows:

At	1c.	per	lb.	there	would	be	supplied	100	lbs.
"	2c.	"	"	"	"	"	"	200	"
"	3c.	"	"	"	"	"	"	300	"
"	4c.	"	"	"	"	"	"	400	"
"	5c.	"	"	"	"	"	"	500	"
"	6c.	"	"	"	"	"	"	600	"
"	7c.	"	"	"	"	"	"	700	"
"	8c.	"	"	"	"	"	"	800	"
"	9c.	"	"	"	"	"	"	900	"
"	10c.	"	"	"	"	"	"	1,000	"

(This is a supply schedule. If plotted, it would give a supply curve.)

Questions

1. Write out a definition of a demand schedule; of a supply schedule.

2. Plot the curves spoken of above, fusing them into one diagram.

3. At what price was the amount which would be supplied at that figure just absorbed by the amount which would be demanded at that figure?

4. Can you establish that this price is the market price which will prevail under the assumed circumstances? The demand schedule and the supply schedule given are assumed to be actual ones, whether competition is perfect or not.

5. Can there be more than one price for a given commodity in the same market at the same time? Why or why not?

6. If we should assume a different (and increased) demand schedule, would that fact alone increase supply?

7. Will doubling the demand for a good double its value? What is meant by doubling the demand?

8. If prices depend upon demand and supply, how is it possible for stores to have a one-price system?

9. Can you speak of the amount demanded independent of price? Can you so speak of the amount supplied?

3. The Marginal Utility Explanation of Value

In recent years the doctrine of marginal utility has been much used as an explanation of value. It has been severely criticized, but an exposition of the doctrine is justified by (*a*) the point of view it contributes; (*b*) the fact that the student in his reading is certain to meet with the terminology of this doctrine.

Marginal (or final) utility is the utility of the least important increment of supply.

Note.—Remember the law of diminishing utility.

The principle formulated by the "marginal utility theorists" may be put as follows:

The market price of a commodity is determined by the valuation of the marginal purchasers, i.e., those who would refuse to purchase if any increase in price took place. To these purchasers the marginal utility of the commodity is just equal to that of the money required to purchase it. Thus it is frequently said that market price is determined by marginal utility.

If the conditions of supply were to change, another set of purchasers would be placed in the marginal position, and would determine price by their valuations.

It is obvious that the above statement of the marginal utility explanation of value is in complete accord with the demand and supply theory. That theory does not deny that those purchasers who are ready to drop out when prices rise are in a position to exert a direct influence upon price. The supply and demand theory lays emphasis upon the entire volume of demand; it takes for granted variability of part of the demand. The marginal utility theory lays emphasis

upon the variable part of the demand; the existence of a large unvarying demand is taken for granted.

Questions

1. Is marginal utility the same as total utility?
2. Is marginal utility the utility of the last increment of stock?
3. Define: marginal buyer, marginal seller, marginal producer, marginal cost.
4. Write out a statement harmonizing the marginal utility doctrine with the demand and supply doctrine.

4. Analysis of Demand

a) Determinants of Demand

b) Some of the Forms or Manifestations of Demand

In sec. 2 we saw that price-making forces work themselves out through demand and supply. At that time we *assumed* demand. We must now examine the forces which go to make up demand, as well as some of the forms in which it appears.

a) Determinants of Demand

i. Desire
ii. Effectiveness of Desire—Purchasing Ability
iii. Number of Persons Affected.

i. *Desire*

First of all, if a good is to be demanded it must have utility. Men desire it because it will contribute to the satisfaction of wants. Review in this connection the section on economic wants, motives, and choices.

Questions

1. Draw up a list of reasons why one person's subjective estimate of a good may vary from that of another person.
2. Will the intensity of the desire vary with an increase in the number of units of a good?
3. Do people sometimes buy a thing at a high price who would refuse to buy at a low price? Why?
4. "It is easy for the economist to say that people spend their money so as to get the most good out of it, but we know they do not. Frequently people spend for ornaments and showy things." Comment. —T.

5. Do goods tend to be less valuable when out of style? Why?
6. What is the value of an undetected counterfeit $10 bill?
7. Do the real qualities or the supposed qualities of a good influence people?
8. Does the possibility of the availability of a satisfactory substitute ever affect the desire for a good?
9. Is the desire for a good ever reflected or derived from the desire for another good? If your answer is yes, indicate of what classes of goods this statement is true.
10. Does the utility curve descend more rapidly in the case of some goods than in the case of others? Give instances.
11. Suppose a sudden doubling of all goods (by a miracle, if you choose). Would values be affected?
12. Can you cite cases where one good is desired for many purposes, i.e., where one good tends to satisfy many wants?
13. Can you cite cases where one good will be desired only when it can be had in connection with some other good?
14. Will desire alone determine value? Does a diamond satisfy a greater want than a loaf of bread? Why has the diamond greater value?

ii. *Effectiveness of Desire—Purchasing Ability*

Objective demand cannot be based upon desire alone. In an exchange process, purchasing ability or *effectiveness* must accompany the desire.

Questions

1. Does the penniless, hungry tramp "exercise demand" for bread in the bakery? Does purchasing ability imply the possession of that which we call money?
2. What is meant by saying that a person can demand only when he supplies?
3. Can a man be a consumer and yet not be a producer?
4. Is a general over-production possible?
5. "The destruction of wealth has one compensation in that it increases demand for goods." Comment. —T.
6. "Demand in general would be increased if employers would raise wages." Would this increase the total output of products? Would it increase total demand? Would it cause a different distribution of demand? —T.
7. "Rich people who make commodities for themselves diminish by just so much the demand for other people's goods and so are the enemies of producers in general." Comment.—T.

8. "Rich people who produce goods or services for the market (e.g., teach) increase by just so much the supply of goods and so work harm to producers in general." Comment.—T.

9. Does total demand equal total money? If all money were wiped out of existence would demand disappear?

10. Can an individual buy more than he sells in the long run?

11. The irrigation projects of the federal government are opening up for settlement large tracts of land that were formerly desert. Will the settlement of these tracts increase the demand for products of other parts of the country? How would you proceed to determine the extent of this increase, if any?

12. "Demand for a good is made up partly of the supply of other goods." Why or why not?

13. "Every true friend of labor condemns producing goods by convict labor. It increases supply of commodities without increasing demand and so diminishes the employment available for honest laborers who keep out of prison. A strange situation surely." Comment. —T.

14. It seems to be clear that the effectiveness of a man's desire depends (at least in part) upon his ability to offer something in exchange. Will it also depend upon his willingness to offer this something? If so, upon what will this willingness depend?

15. Is desire or purchasing ability the more fundamental factor in demand? Which of the two is more closely related with conditions of supply?

iii. *The Number of Persons Affected*

This is really a matter of extent of the market and is so obvious as to require no extended treatment. The demand schedule of society is a composite of the demand schedules of individuals. Construct a series of individual demand schedules and fuse them into one for the society.

b) Some of the Forms or Manifestations of Demand

i. Elastic and Inelastic Demand
ii. Derived Demand
iii. Composite Demand
iv. Joint Demand

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i. *Elastic and Inelastic Demand*

Demand may be elastic or inelastic, i.e., the amount demanded may change readily or slowly with change of price.

Questions

1. Is the demand for the following elastic or inelastic: diamonds, salt, tobacco, beef, shoes, manual labor?
2. In which country is the demand for rice the more elastic, Japan or the United States?
3. May the demand for a given commodity be elastic at one price level and inelastic at another? Illustrate.
4. Is the demand for necessities elastic or inelastic? Does it make a difference if there are satisfactory substitutes available?
5. Draw up schedules illustrating elastic and inelastic demand. Plot them.
6. Is demand elastic in the case of a commodity which is so cheap that the users are near the point of satiety?
7. Could a commodity be subject to an elastic demand for one purpose or want, and to an inelastic demand for another purpose—all at the same price?
8. Does the elasticity of demand depend largely upon the ease with which other commodities may be substituted for it?
9. Draw up a series of general statements or propositions defining the circumstances under which demand will be elastic or inelastic.
10. Work out a case of the demand of different classes of a community (rich, middle, poor) for some well-known commodity. Draw up a separate schedule for each class, trying to make it typical. See whether each schedule is elastic or inelastic. Combine these schedules so as to show the total demand of the whole community and observe whether it is elastic or inelastic.
11. Does advertising affect elasticity of demand?

ii. *Derived Demand*

Very commonly, the demand for a commodity is a derived demand. Producers' goods afford examples. Our demand for them is really derived from our demand for their products. Some call it a case of derived value. Still demand and supply determine value; but the demand in this case is of the kind indicated.

Questions

1. Mention several concrete instances of derived demand.
2. What relation to this matter has question 9 under the topic "desire"?
3. Try to think out the bearing of derived demand upon the distributive process; e.g., is the demand for labor a derived demand? If so, will it have a bearing on the principles underlying wages? How as to rent and interest?

iii. *Composite Demand*

Demand takes at other times the form of composite demand; i.e., one thing is wanted for many purposes. Thus corn is wanted for bread, for stock feeding, for starch manufacture, for glucose, and for the distilling of alcohol.

QUESTIONS

1. Work out several other examples. Will this particular form of demand have any bearing upon wages? i.e., is the demand for labor of this character?
2. What question under the topic "desire" has a bearing upon composite demand?

iv. *Joint Demand*

Joint demand exists in case the demand for one good involves in practice a demand for another also. Thus demand for lumber usually entails a demand for nails.

QUESTIONS

1. Work out several cases.
2. Show how extremely wide the application of this principle is.
3. Try to work out the effect of a sudden increase of supply of one of these goods upon the value of the other; e.g., automobiles and gasoline. (See Carver, *Distribution of Wealth*, 148.)
4. Try to think out the consequence of this as regards distribution of wealth.
5. Are many cases of joint demand also cases of derived demand?
6. What question under the topic "desire" has a bearing upon joint demand?

5. ANALYSIS OF SUPPLY

a) *Meaning of Supply*
b) *Temporary v. Long-run Conditions of Supply*
c) *Determinants of Supply*
d) *Some of the Forms or Manifestations of Supply*

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a) *Meaning of Supply*

QUESTIONS

1. Can one speak of the amount supplied independent of price?
2. Does "supply" mean actual supply, or potential supply, or both?

3. Are supply and stock the same? Does stock include the portion in the hands of consumers? Does supply? Can stock ever exceed supply? Can supply ever exceed stock? Does it in the case of sales for future delivery?

4. Construct a series of individual supply schedules. Fuse them into one schedule for society.

b) Temporary v. Long-run Conditions of Supply

It has become customary to differentiate between temporary and long-run (sometimes called normal) conditions of supply. To some, the temporary (market) conditions are the only ones of real, scientific significance. These writers question whether in an evolutionary society there is any such thing as a normal. Most writers contend, however, that while the market conditions are significant, back of these conditions are others of more permanent significance. To these writers normal or "underlying" conditions furnish the background. The market conditions form a pattern, so to speak, on this background.

QUESTIONS

1. If you were leaving college might you sell for fifty cents a new book that cost you two dollars? Are publishers likely to sell this book for fifty cents as a permanent policy?

2. If perishable goods are thrown into a market in large quantities, are they likely to sell at a price considerably below what a farmer could accept as a permanent matter?

3. Why does the price of wheat in the United States generally fluctuate between certain limits? Why does it not rise to $10 a bushel? Why does it not fall to 10 cents a bushel? Why does it fluctuate at all?

4. Why do not stores sell goods regularly at as low a rate as they use on bargain sales?

c) Determinants of Supply

i. Physical Determinants
ii. Social Determinants
iii. Monopolistic Limitation
iv. Cost of Production

This section is concerned with an attempt to analyze the forces lying back of supply. The method of treatment is probably self-explanatory.

i. *Physical Determinants*

(1) Relatively Fixed Stock—Consumers' Goods
  (*a*) Non-producible Goods
  (*b*) Producible Goods (of which the stock is permanently excessive; e.g., copies of a novel which was unsuccessful)
  (*c*) Producible Goods (of which the stock cannot be increased for a considerable period; e.g., wheat, between two harvests)
(2) Relatively Fixed Stock—Producers' Goods
(3) The Character of the Commodity

Questions

1. Suppose that as regards a certain kind of rare coin, A would buy one at $100; B, one at $90; C and D, one each at $80; E, F, and G, one each at $60. If, now, seven are to be disposed of in a competitive market, what will the price be? Does cost of production affect the situation?

2. In the case of old spinning wheels what would normal price mean? Would cost of production have a definite relation to price in such a case?

3. "The market price and the normal price of such goods is determined by demand and supply, or, in the terminology of the marginal utility school, by marginal utility alone." Why or why not?

4. "In case of a novel which was unsuccessful, marginal utility of *stock* determines value." Why or why not?—T.

5. How could you determine the price you should ask for a piece of agricultural land which you own?

6. A $1,000 government bond pays 2 per cent interest. What would you pay for the bond if the usual rate on such investments were 1.9 per cent?—T.

7. Does cost of production determine the price of land in Oklahoma when first opened for settlement? What does determine it?

8. If it takes two years to build a steel mill, will this have a bearing upon the value of steel mills in case of a sudden increase in the demand for steel? Why?

9. How is it possible to corner the market in wheat? Cannot the supply of wheat be increased?

10. Does the character of the commodities cause the conditions of supply of strawberries to be different from those of granite blocks? Why or why not?

11. "In the case of perishable goods, price is determined by the marginal utility of the stock." Why or why not?

12. Find out, by making a list of the cases where the principle applies, whether the character of the commodity is an important element in supply determination.

ii. *Social Determinants*

(1) Formal Social Control
(2) Informal Social Control

QUESTIONS

1. Does legal limitation of the hours of labor affect supply of labor? May it in some cases actually increase labor supply?
2. Show how labor unions may act in determining supply of labor.
3. Draw up a list of cases where formal social control acts as a determinant of supply.
4. Does the pure food law tend to affect the supply of certain foods? Why or why not?
5. Explain prices of theater tickets, football tickets, physicians' fees.
6. Do men ever abstain from supplying a certain good because to do so would cause them to lose the esteem of their fellows?
7. Does a prohibition law which is to some extent evaded affect the price at which liquor is sold in the territory affected?
8. Can you cite cases where custom, habit, ignorance, affect the supply of goods?
9. Which of the above questions deal with formal social control? Which with informal control?

iii. *Monopolistic Limitation*

QUESTIONS

1. Suppose a monopolist could know in advance the demand schedule and the cost schedule of his commodity. Where would he fix the price in the following case?

Demand Schedule		Cost Schedule		Profit—?
10 at	$1,000	10 at	$500	
20	800	20	460	
30	700	30	450	
40	600	40	430	
60	500	60	425	
80	450	80	420	
100	400	100	415	

2. From the evidence of this illustration work out a general principle to explain monopoly price.

3. Formulate a general statement of the relation of monopoly price to elasticity or inelasticity of demand.

4. How would the general principle of monopoly price (Problem 2) be modified in the case of a commodity for which there is an available substitute not controlled by monopoly?

5. How great is the power of a monopolist who deals in the necessities of life? In the luxuries of life?

6. How great is the power of a monopolist who has control of natural resources?

7. "In the case of a monopolized good cost of production does not affect price." Comment.

8. A piano manufacturer buys out all his competitors. Can he now sell the former aggregate output at an advanced price? Why?

9. How effective in restraining monopoly do you think potential competition is?

10. Professor Taylor says, "The normal price of goods produced by a capitalistic monopoly tends to approximate the cost of production to outsiders, usually remaining, however, somewhat above such cost." Comment.

11. Suppose that of the price charged by a monopolist for his product 5 per cent is profit. He now raises the price 5 per cent. What per cent will this increase his profit, assuming sales to remain the same? Will sales fall off very greatly in practice?—T.

iv. *Cost of Production*

(1) Constant Cost
(2) Increasing Cost
(3) Diminishing Cost

By many writers the term "cost of production" is taken to mean the *sacrifice* or effort involved in production. When they speak in terms of entrepreneur's outlay they use the expression "*expenses of production.*" Their use of terms has been criticized on the grounds of (*a*) popular usage, (*b*) point of view; i.e., it is contended that in economics *outlay* and not *sacrifice* is the tangible and the essential thing. A recent writer defines cost of production as "the price statement of the compensation necessary to the forthcoming of that product." This includes: (*a*) distributive shares; e.g., wages, rent, interest, profits; (*b*) other necessary outlays; e.g., taxes, etc.; (*c*) opportunity cost. (See Davenport: *Value and Distribution*, 88–93.)

(1) *Constant Cost*

QUESTIONS

1. Define constant cost.

2. In the following schedules what will the price be, assuming cost of production to be the only determinant of supply?

Units	Cost per Unit	Demand Schedule A	Demand Schedule B
100	$1	100 at $4 each	150 at $3 each
200	1	200 at 3 "	175 at 2.50 "
300	1	300 at 2 "	200 at 2 "
400	1	400 at 1 "	300 at 1.50 "
500	1	500 at 75c. "	500 at 1 "
600	1	600 at 50c. "	700 at 75c. "
700	1	700 at 40c. "	1,000 at 60c. "

3. Assume cost of production to be the sole determinant of supply. Construct a supply curve to represent the case of goods increasable at constant cost, and show that whatever demand curve be drawn to intersect it the market price indicated by the intersection will be the same.

4. "No matter what the market fluctuations may be, in the long run cost of production will be the significant thing to watch in the case of these commodities." Why or why not?

5. Do concerns ever sell below cost of production? If so, why? Could they continue to do so?

6. Does cost of production influence market price? Does it influence normal price?

(2) *Increasing Cost*

Questions

1. Assume cost of production to be the sole determinant of supply. What will the price be in the following case?

Cost Per Unit	Number Supplied	Price	Number Demanded
$36	7	$36	15
37	8	37	14
38	9	38	13
39	10	39	12
40	11	40	11
41	12	41	10

2. Assume cost of production to be the sole determinant of supply. Draw a curve of increasing cost. Draw a demand curve on the same diagram. Double your demand. What effect upon price?

3. "No matter what the market fluctuations may be, in the long run cost of production under the worst circumstances, or marginal cost, will be the significant thing to watch in the case of these commodities." Why or why not?

4. Assume cost of production to be the sole determinant of supply. "The marginal cost theory is absurd. Suppose wheat is selling for 70 cents a bushel. A farmer whose average cost is 50 cents will make 20 cents per bushel 'clear velvet' and will therefore

be under strong incentive to increase his output, even though his marginal cost be 70 cents. Thus, average cost and not marginal cost is the significant thing." Why or why not?

(3) *Diminishing Cost*

QUESTIONS

1. Define diminishing cost.
2. Assume cost of production to be the sole determinant of supply. "In the case of these goods, value will tend toward the lowest cost, in so far as this lowest cost can be realized in the making of all of the product demanded. In so far, however, as it is necessary at any time to depend for part of the supply on production at a higher cost, the case resembles the case of increasing cost, and values tend to adjust themselves to the marginal cost, or cost of production under the worst circumstances." Why or why not?
3. Make a diagram composed of a demand curve and a supply curve. Let the supply curve illustrate diminishing costs.
4. Make a similar diagram in which the demand curve is a wavy line and in which the supply curve cuts it at several points.
5. Show how elasticity or inelasticity of demand determines whether production at lower cost shall prevail.
6. Should you expect the cheapest or the costliest element of supply to determine prices
   a) When cheapness results purely from enlarging the output of established plants without changes of method or equipment?
   b) When cheapness results from a construction and utilization of larger plants?
   c) When cheapness is the consequence of successive improvements of machinery and methods, available in small plants as well as large?
7. At a given time the supply of cotton cloth is derived from *a*) New and up-to-date southern plants; (*b*) obsolete New England plants; (*c*) progressive New England plants, with some old machinery and some new machinery. What cost of production will determine the price of the cloth?

d) *Some of the Forms or Manifestations of Supply*

i. Joint Supply and By-Products
ii. Composite Supply and the Principle of Substitution

i. *Joint Supply and By-Products*

Questions

1. If a pound of porterhouse steak is supplied you, are any other goods necessarily put upon the market in the process of supplying you?
2. What other articles are necessarily supplied along with mutton, flour, cotton, kerosene, lumber, butter?
3. Can you determine the actual cost of butter or wool?
4. If the price of hides falls, does it follow that men will restrict the production of them?
5. Would a sudden and large increase in the demand for beef affect the supply of hides? of shoes? of harness?
6. Does this principle apply in the case of the services performed by railroads?
7. Does it apply to the goods produced by the general farmer?
8. Do you think the principle is one of wide application? Does it render easier or more complicated the study of value?

ii. *Composite Supply and the Principle of Substitution*

Questions

1. Name some want that can be supplied equally well by two different commodities.
2. Is the principle of substitution of wide application? Illustrate.
3. Is there any substitute for physical labor? for mental labor?
4. If a field is well suited to wheat-growing, and only passably good for oats, are there conditions under which it will be devoted to oats?
5. Would the high price of meat affect the consumption of other kinds of food?
6. If the tariff on woolens were removed, would other kinds of clothing lose their present market?
7. If barley should rise in price would more corn be used than formerly?
8. If labor in China rose to $1.50 a day the demand for capital would be likely to increase. Why?
9. Work out the effects, in the way of substitution, of the exhaustion of our anthracite coal deposits.

6. General Questions on Value

1. In stating the principle that the prices of goods tend to equal cost of production some writers prefer to say "cost of reproduction." Why do you suppose they have this preference?—T.

2. Suppose commodities x and y are made out of the same raw material and cost equal amounts of the same kind of labor. Will they have the same prices?

3. Has cost of production any part whatever in determining the price of strawberries?

4. "If the wheat crop of the world should fall off one-half next year, a rise in price would be of great social advantage." Comment.—T.

5. Look at the daily report on the wheat market in the newspaper. Can you see the law of demand and supply working there?

6. If hearses were to fall in price would there be an increase in the number demanded?

7. Even when Raphael was alive did the value of his pictures depend upon the cost of production? Did he possess any natural monopoly?

8. What does "cost of production" mean when applied to the case of a commodity on which practically all the work of design and execution has been done by one person?

9. "Value is determined by demand and supply"; "value is determined by cost of production"; "value is determined by marginal cost"; "value is determined by cost of reproduction"; "value is determined by marginal utility." Can these propositions be reconciled?

10. How is the general statement that (normal) value approximates cost of production affected by (*a*) much fixed capital in the industry? (*b*) Speculative character of the industry? (*c*) The growth of combination or monopoly?

11. "It is utterly impossible that silver should long remain at 55 cents an ounce when three or four of our biggest mines can produce it at a cost under 30 cents. Everybody knows price must approximate cost of production." Comment.—T.

12. Do the government reports regarding the prospects for crops of wheat, cotton, etc., have any influence upon market prices? How? Why do merchants watch these reports more closely than reports or estimates of gold production?

13. Does a person ever pay a high price for a thing because he fears that if he waits for lower prices the supply will all be sold? Does this disprove the treatment of the demand schedule?

14. What do we mean by saying that a good is not produced because the cost of production is too high?

15. Does not value depend upon the amount of labor expended? Is all labor alike? If it were, would a great expenditure of labor cause a machine for blowing soap bubbles to have a high value?

16. Can you think of anything which has value and yet is not scarce? Can you think of anything which is scarce and yet has no value?

17. Look at the commodities advertised for sale in the daily newspaper. Do the laws of value really explain the way in which their prices are fixed? If not, why not?

18. Do the laws of value correctly explain the price of a newspaper, a second-hand typewriter, a glass of soda water, a street-car fare, a new novel, a ticket to the circus, a suit of clothes, a railroad excursion ticket, hats at a fire sale, a ticket to an all-star opera performance, shoes at a bargain sale, a race horse? If not, why not?

19. "Cement put on the market by a well-equipped mill costs about $1.75 per barrel, and it sells at $4. The suppply of raw material is practically unlimited and our mill will soon turn out 2,000,000 barrels per year—and this at a profit of $2.25 per barrel." Has anything been overlooked? —T.

20. What is the relation of custom and habit to value?

21. What is the relation of cost of production to value?

22. What is the relation of utility to value?

23. A trust will sometimes sell its goods below cost in a certain locality where there is competition and make up the loss by the high price obtained elsewhere. What law would you say determined such prices?

24. "The output of wheat will increase 100 per cent and so the price will fall 100 per cent." Comment. —T.

25. If all wages were doubled, what would be the effect upon values?

26. Can we have an elastic supply? an inelastic supply? If so, what are the determining factors?

27. Tell whether the demand for the following is a derived, joint, composite, elastic, or inelastic demand: capital; labor; land; shoes; wheat; flour; bread; leather; hides; steak; butter; books; pencils; wine; playing cards; houses.

28. Tell of the above whether the supply is joint, composite, elastic, or inelastic.

29. Is the price certain to fall if it is higher than the average cost to producers? If higher than cost to largest producers?. —T

30. If there were a combination among all the buyers of a certain raw product what would determine the price of that product?

31. Is the work of a trader in grain productive?

32. Is the board of trade useful to society? Is the stock market? If so, what services does each perform?

33. Can brokers fix the price of grain on the market? If so, how and to what extent?

34. Do the storekeepers fix the price of the grain they buy of the farmer?

35. Can it be said that the law of demand and supply fixes the

price of wheat when there is a corner in the market? Does cost of production have anything to do with the price at that time?

36. Do men speculate because prices fluctuate or do prices fluctuate because men speculate?

37. Mill says that speculators as a class cannot gain by a rise in price of their own creating, though individuals may. Do you think this is correct? Does anybody lose, and if so, who? —T.

38. Explain the prices fixed at an auction sale in terms of demand and supply; in terms of marginal utility.

39. x and y are used in making z. How would a reduction in the value of x affect the value of y and z? How would the discovery of a cheap substitute for z affect the value of x and y?

III. The Mechanism of Exchange

1. *Money Exchange*
2. *Credit Exchange*

Thus far we have dealt with markets and the establishment of values and prices in the market. In doing so, we have constantly been *assuming* certain media or means of exchange. Since money and credit devices are so familiar it was safe so to assume them. Our general knowledge enabled us to use them in our reasoning.

We must now consider in more detail this mechanism which we were assuming.

1. Money Exchange

a) The Nature and Functions of Money
b) The Characteristics of a Satisfactory Money Good
c) The Forms of Money
d) The Value of Money
e) Gresham's Law
f) The Kinds of Standards

Money serves as an aid in exchanging goods and in providing a convenient means of expressing their relative values by prices. Credit may and commonly does perform money-work, and credit enters into price relations as truly as does money. The concrete applications of credit are best studied under banking.

a) The Nature and Functions of Money

Questions

1. Could we have any exchange by using barter alone?
2. What is meant by the "double coincidence" of barter?

3. Could the exchange system be as complex as it is today if we depended upon barter alone? Would the productive process be as efficient?

4. Can you cite any cases of barter being used today?

5. What difficulties of a system of barter are overcome by the use of money?

6. What is money? Must money have value? Has gold coin value because it is money or is it money because it has value?

7. It has been said that the functions of money are to serve as (*a*) a medium of exchange; (*b*) a standard (common denominator of value); (*c*) a standard for deferred payments. Explain why each of these functions is useful and cite cases where money performs each of these functions.

8. A buys 1,000 bushels of wheat from B at $1 a bushel. B accepts in payment a note for $1,000, payable with interest two years from date. Two years later A pays B the $1,000 with interest agreed. Which of the functions does money perform in the course of these transactions?

9. If half the money in a country were suddenly to disappear, would the wealth of the country be diminished?

10. Would it be possible to have a standard of value which did not serve as a medium of exchange? a medium of exchange which did not serve as a standard of value? Can you find examples in the circulation of this country?

b) The Characteristics of a Satisfactory Money Good

Questions

1. Name five commodities formerly used as money and explain why they were abandoned for that purpose.

2. Would the following make good money: iron, wheat, diamonds, glass beads, sea shells, beaver skins? If not, why not?

3. Are there any of the functions of money which would not be satisfactorily performed by the commodities mentioned in the preceding question?

4. Are there any respects in which gold is superior as money to the above-mentioned commodities? If so, explain the superiority in each case.

5. Reasoning from your answers to the above questions, what would you conclude are the characteristics of a good money? Take up in turn the functions of money and state which of the characteristics of a satisfactory money good apply to each function.

6. Are there any respects in which gold or silver fall short of these desired characteristics?

7. What is meant by having a sufficient quantity of the circulating medium?

8. Is a low price level unfortunate provided it is stable? Is a high price level absolutely high or high by comparison? If "high price level" is wise, how high? Why stop there?

9. If a change in the value of money affects all prices alike, is anybody injured thereby?

10. What classes are affected by a rise in the value of the standard? a fall in the value?

11. It has been argued that a steadily falling standard tends to stimulate business. Why? Do you think such a standard would be desirable?

12. It was said that the uncertainty about the standard in this country about 1893 helped to cause the panic. Is this a probable statement? Did this uncertainty affect the value of securities?

13. Some people are urging the coining of the one-half cent piece. Why?

14. Why do we have $1,000 bills in our currency system?

15. "It is crop-moving time. Since farmers do not use checks very much we should have more money for a while." What does this mean? Why more money "for a while"?

c) The Forms of Money

i. Standard Money
ii. Token and Subsidiary Currency
iii. Credit Money

QUESTIONS

1. What would you understand the expression "standard metal" to mean?

2. Would it sometimes be more convenient to have an order for a bushel of wheat than the wheat itself? Answer the same question for a bag of 10,000 gold coins.

3. "Token money is necessary in order to have money in denominations convenient for exchange transactions of all possible sizes." Why or why not?

4. A bank can have outstanding current obligations to the extent of four or more times its cash on hand. How does it dare to do this?

5. What are subsidiary coins? Are they legal tender? Define legal tender.

6. The United States government keeps a gold reserve of 150 millions against 346 millions of greenbacks. How does it dare to keep less than 100 per cent reserve?

7. What is meant by likening credit money to a "road through air" that permits society to use for other purposes the ground formerly used for the road? Are roads through air safe today?

8. Cite instances of standard, token, subsidiary, and credit money in the currency system of the United States today.

9. Why are copper and nickel used for coins?

10. Why does not the government use pure gold and silver in its gold and silver coins?

11. Why not issue perfectly plain cubes for coins? Why mill the edges of coins?

12. In the days of the California gold discoveries different individuals and firms coined their own gold-pieces. Is there any reason for prohibiting such a practice and confining coinage to the government?

13. What is seigniorage? brassage?

14. Copy from each of the kinds of paper money in use in the United States today the significant statements printed thereon.

d) The Value of Money

i. The Value of Standard Money
ii. The Value of Other Forms of Money

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i. *The Value of Standard Money*

The value of standard money, so long as there is free and unlimited coinage, depends upon the value of the money-metal used in the coin. The value of the money-metal is determined in the same way as the value of any commodity—by demand and supply.

Careful attention should be paid to the factors which affect the demand for the money metal. The demand arises from two sources: (*a*) the demand for use in the arts, (*b*) the demand for use as money. Obviously the latter demand is less than it would be otherwise if various forms of credit are used to help perform the work done by the standard, or if the conditions are such that money circulates rapidly so that a given piece does so much the more work.

The business man in speaking of the value of money usually has in mind the current rate of interest which can be obtained for money which is loaned. This should not be confused with the meaning of the term as it is used by the economist—i.e., the power of money in exchange. Since this is measured by the amount of every other commodity for which money will exchange, the value of money is commonly indicated by the general level of prices.

Questions

1. The demand for wheat is a joint demand. Would it not be incorrect to say its value depended upon the demand and supply for some *one* use? How as to gold?

2. What is meant by the demand for money?

3. If Europe ceased to use gold for money would that action affect the value of American gold coins? If so, how and when?

4. If dentists discovered a cheap filling for teeth which was better than gold would it tend to alter the value of the gold eagle?

5. The introduction of the cyanide process for extraction of gold so decreased the cost of production that refuse heaps of old mines were worked over again. What effects would you expect this to have upon the use of gold in the arts? upon its use as money? What would be the effect upon its value in the arts? upon its value as money?

6. A certain amount of gold can be extracted from sea water, yet this extraction is not generally attempted. Why not? Are there any conditions under which this might be resorted to?

7. Can five ounces of gold set aside for use in the arts have a different value from the same amount of gold in a coin? If so, why? If not, why not?

8. Would a seigniorage tend to affect the value of money, and if so, how?

9. Is the value of the dollar fixed and stable?

10. Suppose you could have a commodity which everybody would willingly accept as money and which had no other use. Suppose, further, that all exchanges must be performed by this form of money. Would not its value depend upon demand and supply for that one use? If there were such a paper money and there were no other money, would not its value depend largely upon arbitrary regulation of its supply by the government? Is such a case likely to occur?

11. Does the value of the gold depend upon its marginal cost of production? Is there a large stock today? Is the industry speculative? Is this a case where indirect cost forms a large part of total cost? Have these latter questions any bearing upon the relation of the value of a $5 gold piece to its marginal cost of production?

ii. *The Value of Other Forms of Money*

Questions

1. What must be done to keep token, subsidiary, and credit money equal in value to the standard?

2. The value of gold fell. Effect upon the value of the $5 gold

piece? Upon the price of the $5 gold piece? Upon the value of wheat? Upon the price of wheat? Upon the value of the cent piece? Upon the value of the dime? Upon the value of an ounce of silver? Upon the value of the silver dollar?

3. What determines the value of the silver certificate? of the greenback? of the national bank note?

4. Is there any difference between the value of the bullion in a silver dollar and the value of a silver dollar? If so, how can you explain it?

5. During the Civil War the value of the greenback fluctuated continually. For example, after a union victory, the greenback rose in value. Why?

e) Gresham's Law

QUESTIONS

1. Suppose a man borrowed a bushel of wheat of you. Let the government now pass a law stating that debtors may pay back borrowed wheat in grain of either good or poor quality. In what quality do you think you will be paid?

2. If you were to get some gold bullion by melting coins, would you melt full-weight or light-weight coins? Suppose you were desiring to ship gold out in international payments, which kind of coin would you ship?

3. If in bullion form one ounce of gold equals in value 32 ounces of silver, and by a legal tender law it is provided that the coins made from 1 ounce of gold shall exchange for the coins made from 16 ounces of silver, would you take gold to the mint to be coined? Would you take silver to the mint?

4. Suppose a country is on a gold standard. War is declared. The government concludes to issue paper money which it declares shall be legal tender and which it promises to redeem after the war is over. Doubts arise as to whether it will ever be redeemed. If someone owed you, would he pay you in paper or in gold? Why? Would you have any option in the matter? Would gold remain in circulation?

5. State Gresham's Law, and give an illustration from the monetary history of the United States of a case where it operated.

6. Is there any reason why the proportion of pure metal in the subsidiary coins should be considerably lower than the proportion in the standard coin?

f) The Kinds of Standards

i. The Single Standard
ii. The Double Standard

iii. The Limping Standard
iv. The Tabular Standard
v. The Paper Standard

Several possibilities exist with reference to the form or kind of standard a country should have. In attempting to decide this question the main point at issue is that of the stability of the standard.

i. *The Single Standard* (monometallism)

QUESTIONS

1. Why is gold more stable in value than most commodities?
2. Will the recent adoption of the gold standard by a number of countries tend to make the value of gold more stable, for the time being? in the long run?
3. Has the production of gold been quite regular, or have there been great changes in the output? What is the situation at the present time?
4. Has the United States ever been on a single standard? If so, when?
5. Suppose a country has a gold standard. Will that mean that it may not have silver or copper coins? May it have credit money?

ii. *The Double Standard* (bimetallism)

QUESTIONS

1. What is meant by bimetallism? Have we ever had a bimetallic standard in the United States? If so, when?
2. What is meant by 16 to 1? Has that ratio ever been adopted in the United States, and if so, when? Has there ever been any other coinage ratio in this country?
3. On what ground can the bimetallist contend that bimetallism will give a more stable standard of deferred payments?
4. "The coinage ratio sets in motion forces of demand and supply that will cause the market ratio to coincide with the coining ratio. If silver tends to fall in the market, then it will tend to rush to the mint. Thus the demand for silver is increased and by its displacing gold in the currency the demand for gold is lessened." Explain.
5. If the above be true would bimetallism be more likely to succeed if the coining ratio chosen be near the existing market ratio? Why?
6. Would bimetallism be more likely to succeed in a country which used much metal in its currency? Why?
7. Precisely why would international bimetallism be stronger than national bimetallism?

8. In Question 4 above, if silver displaced all the gold in circulation, would there then be bimetallism in fact?

9. "Bimetallism is absurd. It would result first in gold monometallism, then in silver monometallism, and so on." What does this mean?

10. Is the demand for gold and silver homogeneous—i.e., is it an interchangeable demand? Are the conditions of supply homogeneous?

11. Is Gresham's Law likely to come into operation under a bimetallic standard? If so, under what circumstances?

12. At the time of Bryan's free-silver campaign some favored a coinage ratio of 32 to 1 instead of 16 to 1. What was the reason for this? If you had had to decide between the two, which ratio would you have chosen?

13. In 1856 France had bimetallism with a coinage ratio of 15.5 to 1. The market ratio was about 15.3 to 1. Which metal was the cheaper or overvalued metal?—T.

14. If the United States were now to adopt bimetallism at the ratio of 16 to 1 what changes would take place in the circulating medium of the country?

15. If the United States had free coinage at 16 to 1 and the market ratio of gold and silver were 12 to 1, what would be the effect on the circulating medium of the country?

16. Does the principle of substitution of goods have any bearing on the value of metals under bimetallism?

17. Is there anything in the nature of mining that keeps the ratio of the supply of gold and silver nearly uniform? What light does the history of the output of these metals during the nineteenth century throw on this point?

18. Is a bimetallic standard likely to be more stable than a monometallic standard?

19. Would the adoption of bimetallism by all civilized countries (international bimetallism) result in a more stable standard than its adoption by the United States alone?

20. Is there more or less reason for the adoption of bimetallism by the United States now than there was about 1893?

21. Draw up a chronology of the monetary history of this country.

22. We had bimetallism from 1792 to 1873. Yet far more silver dollars were coined from 1878 to 1893 than were coined in the earlier period. Explain.

23. From 1792 to 1834 our coining ratio was 15 to 1 and the market ratio was nearer 15.5 to 1. What metal tended to go to the mint? Why were no silver dollars coined from 1805 to 1836?

24. From 1834 to 1860 our coining ratio was 16 to 1 and the market ratio was nearer 15.5 to 1. What metal tended to go to the mint?

25. It has been said that the legislation of 1873 deprived people of "the dollar of their daddies." Establish that people living in 1873 had had little opportunity ever to have seen a silver dollar.

26. What was the "crime of 1873"? Why did the measure pass Congress with so little opposition at the time?

27. What was the specific demand of the free-silver party? When did the free-silver movement arise? Why did it come when it did instead of earlier—say about 1855?

28. What different classes or sections of the country wanted free silver? What did they expect to gain by it?

29. What legislation was passed as a result of the demands of the free silverites? What were the consequences of that legislation?

iii. *The Limping Standard*

This topic requires no discussion. The term is used to express the situation in those countries where both metals have unlimited legal tender power but where only one is coined unlimitedly. It marks a transition from the double to the single standard. France and the United States furnish examples of a limping standard.

iv. *The Tabular Standard*

A change in the value of money and a change in the level of prices are but two ways of stating the same fact—the change in the exchange ratios between money and goods. The fact of the change implies nothing as to the cause of the change. The cause may be exclusively on the gold side, or exclusively on the side of the other goods, or it may be a cause which affects both sides.

A change in the level of prices (from whatever cause) has serious consequences. The tabular standard is a device for studying these changes and for minimizing the consequences of these changes, if it is actually used.

Index numbers are the ratio of the general average of prices at one time to the general average (usually expressed as 100) at some previous period which has been chosen for purposes of comparison.

Questions

1. Construct an index number based on assumed prices for a dozen commodities at two different periods, showing the change in the value of money.

2. Why is "weighting" sometimes used in the construction of index numbers? Is the correction important?

3. In the nineties the gold party declared that the value of silver had fallen in the preceding twenty-five years; the silver party

declared on the other hand that it was not a fall in silver which had taken place, but a rise in gold. How would you go about it to find out the truth of the matter?

4. Enumerate some of the things which might tend to raise or lower the prices of a large number of commodities independent of any change on the part of the standard.

5. Explain the tabular standard. Do you think it would be better than a gold standard?

6. Why do business men object to this idea of the tabular standard?

v. *The Paper Standard* (fiat money)

QUESTIONS

1. Is it hypothetically possible that a mere paper standard could be more stable in value than the gold standard? (This question assumes that people would be willing to accept a paper standard.)

2. Is it true that if we used paper money instead of gold much social outlay would be saved?

3. Why not have a paper standard?

4. Why have some people desired it?

5. It is commonly said that from 1862 to 1879 the United States was on a paper standard. Does this refer to the legal or to the actual situation? Even with reference to the actual situation, were people accepting the paper money because the government ordered it or because they expected it to be redeemed in gold at some time?

6. Has there ever been a case of a pure paper standard? Is such a thing likely to exist save in the sense of a tabular standard?

g) *International Flow of Money* (treated under Foreign Exchange)

2. CREDIT EXCHANGE

a) *Credit and Credit Instruments*

b) *Credit Institutions* (with particular reference to banking)

By far the greater part of the exchange transactions in such an industrial society as that of the United States is performed by credit devices. Some analysis of these devices and the way in which they operate is necessary.

a) *Credit and Credit Instruments*

QUESTIONS

1. Define credit.

2. What is meant by book credits? checks? promissory notes? drafts? bills of exchange?

3. Show how each of these credit devices may perform money functions.

4. Is credit capital? Does it really add to the sum total of instruments, or does it merely make possible a better utilization of instruments already existing?

5. "Credit quickens the productive process." Do you agree? If so, how does it do so?

b) *Credit Institutions* (with particular reference to banking)

i. Principles of Banking
ii. Clearing-House Operations
iii. Comparison of Banking Systems
iv. Foreign Exchange (treated under International Trade)

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i. *Principles of Banking*

QUESTIONS

1. State carefully what is meant by (*a*) discount, (*b*) deposit, (*c*) issue.

2. What forms of so-called banking can you enumerate? Which of these forms of banking do you regard as banking in the strict and typical sense?

3. Which of the three fundamental banking functions are performed by (*a*) savings banks, (*b*) trust companies, (*c*) "bankers," in the sense of dealers in foreign exchange?

4. On what sorts of security do banks ordinarily make loans?

5. What are the relative advantages and disadvantages of checks and banknotes as regards (*a*) convenience, (*b*) safety?

6. Why should any more care be taken by the government to protect banknotes than to protect deposits?

7. What are the most desirable forms of investment for a bank?

8. How can a bank fail when its assets are greater than its current liabilities?

9. "One of the main functions of a bank is to place capital with those who can use it best. This aids society as well as the individual." Do you agree?

10. In what ways may a deposit account be created?

11. "A bank wishes a strong reserve." "A bank wishes as small a reserve as possible. A reserve is idle money." Can these statements be reconciled?

12. "The government could justly tax bank issues 5 or 6 per cent. In the United States banks buy bonds and collect the interest on these bonds. They issue notes on the basis of these bonds and get

interest on the notes also. Thus they make a double profit and so are favored over other businesses." Do you agree?

13. "A bank should be free to give the community it serves the kind of service desired. If deposit currency is desired, let the bank have freedom in giving that service. Let the same be true of circulation." What is meant by deposit currency? by circulation? Do you agree with the quotation?

14. "An effective redemption scheme is all that is needed to secure either notes or deposits." Do you agree?

15. On which side of a bank statement should the following items go? Show why in each case: overdraft, expenses, unpaid dividends, certified checks outstanding.

16. Bank X has the following items in its account:

Loans and discounts	$380,000	Capital	$100,000
Bonds and stocks	21,000	Surplus	20,000
Real estate	12,000	Undivided profits	8,000
Notes	50,000	Due from banks	40,000
Deposits	350,000	Cash	60,000
Other assets	15,000		

A) Arrange these items as they should stand in a regular statement.

B) Taking this statement as a basis, account for the following transactions:

a) The bank discounts $50,000 of commercial paper for 3 months at 4 per cent per annum, making half the advance in cash and half in deposits.

b) $70,000 of loans are paid up at maturity. $10,000 of this payment is made in cash; $15,000 in the notes of this bank; and the remainder in checks drawn upon this bank.

c) A dividend of 2 per cent is declared, of which $\frac{1}{4}$ is credited to depositors and $\frac{3}{4}$ paid in cash.

d) The real estate increases in value by $3,000.

e) $5,000 is added to surplus.

Balance the completed account. What is now the proportion of reserve to demand liabilities? What was the proportion originally?

17. Taking as basis the statement at the beginning of the previous question, account for the following transactions:

a) The bank cashes checks on other banks to the amount of $2,500 and for the time being holds the checks before collecting them.

b) New deposit accounts are created to the extent of $10,000 by the deposit of checks on other banks.

c) $5,000 of loans prove bad and are not paid at maturity, but the bank partially escapes loss by taking $4,000 worth of bonds and stocks which it held as collateral for the loans.

d) The bank sells for cash at face value a draft for $1,000, drawn by it against another bank with which it carries a deposit account.

Balance the completed account. What is the proportion of reserve to demand liabilities?

ii. *Clearing-House Operations*

QUESTIONS

1. When the butcher and the baker cancel from their books equal accounts against each other, is this in the nature of a clearing transaction?

2. When you deposit checks in your bank and draw others in favor of your creditors, does the bank actually move money about? If all the parties interested dealt with the same bank, would that bank serve as a sort of clearing-house for these individuals?

3. What is the immediate function of a clearing-house? What are some of the indirect advantages?

4. Distinguish between clearing-house certificates and clearing-house loan certificates.

5. Are clearing-houses more important for checks than for notes? Why? Can you give instances of the practice of redeeming bank notes through a clearing-house?

6. Why is the expedient of combined reserves resorted to? What is the fundamental advantage of the expedient? Would it be advantageous to combine the reserves of New York banks regularly and permanently?

7. "Combined reserves strengthen banks in their dealings with each other, i.e., through the clearing-house. Equalized reserves aid banks in their drains over the counter." What does this mean? Is it true?

8. Why in the United States do we trouble about combined reserves? Is there really less money in the country in time of panic?

9. How does the issue of clearing-house loan certificates affect the power of banks to lend? Are they profitable to the banks? Do they stay out long?

10. Are weekly reports of clearings any true indication of the prosperity of business in general? Explain.

11. Are stock transactions in Wall Street (and elsewhere) included in clearings?

12. Do all checks pass through the clearing-house?

13. How do banks not members of clearing-house associations manage their exchanges?

iii. *Comparison of Banking Systems*

QUESTIONS

1. Draw up a comparative statement in the form indicated below to show the regulations and policies of the Bank of France, the Bank of England, the Reichsbank, and the national banks of the United States.

		Bank of France	Bank of England	Reichsbank	National Banks of the U. S.
Date of establishment and reasons for establishment					
Ownership					
Management					
Financial relations with government					
Capital*					
Surplus*					
NOTES	Extent of monopoly of issue				
	Nature of the limitation of the amount of issue				
	Provisions for security				
	Elasticity				
	Legal tender powers				
RESERVE	Proportion to liabilities				
	Composition				
	Policy of maintenance in crisis				

*In giving figures for capital, etc., give amounts in the currency of the respective countries, with the equivalent sum in dollars in parentheses.

2. What provisions of law, peculiar to the United States national banking system, interfere with the reasonable extension of bank credit (including deposits and notes) in time of financial stringency?

3. What has been the effect of suspending the act of 1844 during periods of embarrassment for the Bank of England? Would experi-

ence suggest the repeal of the act, to give the bank greater freedom at all times?

4. Why is a large reserve maintained (*a*) by the Bank of France? (*b*) by the Bank of England?

5. Explain in detail whether or not the following statement would represent a proper condition of the *n*-th National Bank of Pittsburgh:

Capital	$150,000	Loans	$500,000
Surplus	25,000	U.S. bonds	55,000
Undivided profits	5,000	Other bonds and stocks	125,000
Deposits	600,000	Real estate	90,000
Notes	160,000	Other assets	25,000
		Due from banks	80,000
		Deposited with U.S. treasurer	9,000
		Specie and legal tender	55,000

6. Rank the national banks of the United States, the Bank of England, the Bank of France, and the Reichsbank in the order of (*a*) security of notes; (*b*) elasticity of note-issue; (*c*) elasticity of banking credit in general; (*d*) reserve against deposits; (*e*) proportion of deposits to notes; (*f*) closeness of governmental control or supervision.

7. Why is an elastic currency desirable? What parts of the means of payment of this country are elastic?

8. State the provisions of the Aldrich-Vreeland Act and explain their purpose.

9. Why do they not resort to combined reserves in England or Germany in time of panic as in this country?

10. Do the reasons which make a speedy redemption of bank notes desirable apply in the United States today?

11. Give the arguments for and against state guarantee of bank deposits.

12. Give the arguments for and against a central bank of issue in the United States today.

iv. *Foreign Exchange* (treated under International Trade)

IV. International Trade

1. *The Principles Determining International Trade*

2. *The Balance of Trade Idea*

3. *Foreign Exchange*

4. *Regulation of International Trade* (with particular reference to the protective tariff)

International trade does not differ essentially from domestic trade. The motives leading to trade between inhabitants of the

United States and inhabitants of England are not different from the motives leading to trade between inhabitants of Illinois and inhabitants of California. It has become customary, however, to give separate treatment to international trade, largely because such trade is almost everywhere the subject of special regulation by government.

1. The Principles Determining International Trade

a) *Trade Based upon Insuperable Differences* (e.g., trade between tropical and temperate regions)

b) *Trade Based upon Differences Constituting Reciprocal Superiority* (one region being superior in one line, the other region being superior in a different line, e.g., American export of cotton to Mexico)

c) *Trade Based upon Differences Constituting Relative Superiority* (e.g., American wheat in exchange for British steel)

Given two regions where in each case the one is able, through natural endowment or character of population, to produce goods which the other cannot, it is natural that trade should arise. It is not difficult to see, furthermore, that given two regions where one has a superiority (though not a monopolistic superiority) in one commodity while the other region has a superiority (though again not a monopolistic superiority) in another commodity, trade is again a natural result. The third case is somewhat more puzzling. Given two regions, one of which is superior to the other in both lines of production, trade may arise provided the superior region is relatively stronger (compared with the inferior region) in one line of production than it is in the other line.

Note:—In every country natural advantages in production are reflected in the rates of wages and interest. In a country of superior advantages, the rates of wages and interest are likely to be high. Thus in the United States, the natural endowment of which is especially rich, wages are higher than in any other country; interest rates are also higher than in Western Europe. It follows that in industries requiring a relatively great expenditure of labor and an extensive capital equipment, as in many branches of manufacture, money costs of production are likely to be higher in the United States than in Europe, in spite of the fact that American workmen are often more efficient than European, and American capital frequently takes the form of better equipment than that of European countries. The money cost of production in the United States is likely to be relatively low in the industries that make a large drain upon natural resources

and require comparatively little use of labor and capital, as in many of the extractive industries.

With the steady increase in population and capital, the United States gradually overcomes the disadvantages that lie in the way of successful manufacture. Owing to the operation of the law of diminishing returns it loses gradually its advantages in extractive industries. Accordingly, even without interference on the part of the government, the United States would become more and more of a manufacturing nation and become less and less engaged in extractive industries.

Questions

1. A is a good musician but temperamentally unfitted for other work. B, while fond of music, is efficient only in farming. Is an exchange likely to take place? Would the situation be different if A and B represented regions of different natural endowment?

2. A by one day's labor can make nine units of x or two units of y. B by one day's labor can make two units of x or nine units of y. Would specialization and exchange be likely to take place? Would the situation be different if A and B represented regions instead of men?

3. A by one day's labor can make 20 units of x or 10 units of y. B by one day's labor can make 15 units of x or 5 units of y. Would specialization and exchange be likely to take place? Would the situation be different if A and B represented regions instead of men?

4. A is a very able lawyer and also a very skilful stenographer. Is it surprising that he confines himself to the law and hires a stenographer who is much less skilful?

5. In the eight months ending August 1, 1909, the export and import trade of the United States with Europe amounted to $1,323,000,000; the export and import trade with South America amounted to $166,000,000. Do you believe that the relative volume of the two branches of our foreign trade will be the same fifty years from now? Why?

6. Every important commercial nation has, in the last two decades, endeavored to establish control over some portion of the tropics. Explain this fact on the basis of the conditions underlying international trade.

7. When China becomes modernized can the United States expect to export large quantities of manufactures to that country? Of agricultural products?

8. If Canada were annexed to the United States, would the character of the trade between the two regions be changed?

9. State the economic conditions that serve as a basis for the trade between the United States and Mexico.

10. An American statesman of the nineteenth century declared that it was bad policy for the United States to import any commodity that could be produced in the United States. Do you agree?

11. Another statesman urged that no commodity which can be produced in the United States with the same amount of labor as in foreign countries could be economically imported. Do you think this position tenable?

12. It has been asserted that the income of the citizens of the United States could be greatly augmented if all commodities now imported were produced at home, and all commodities now exported were consumed at home. The cost of transportation, now amounting to several hundred millions annually, would thus be saved. Apply this argument to trade between the Middle West and the Pacific slope, and expose the fallacies involved in it.

13. From your knowledge of the development of wants under modern conditions, would you argue that international trade will tend to increase or to diminish in the future?

14. Canada and England can each produce both hardware and wheat. But England has a body of workmen specially trained for the production of hardware, while Canada has vast fertile territories wonderfully adapted for the growing of wheat. From these facts it naturally follows that Canadians and British gain mutually through an exchange of products. Do you agree?

15. Is international trade likely to be permanent if based upon (*a*) differences of climate and other natural conditions? (*b*) differences in relative supply of land? (*c*) differences in relative supply of capital? (*d*) differences in character of population? Tell why you answer as you do in each case.

2. The Balance of Trade Idea

The doctrine of the balance of trade, although it is of relatively little significance in the economic science of the present day, has historically been important. It merits discussion at this point chiefly because of its lingering influence upon uncritical public opinion and because of its relation to the subject of the international exchanges.

Questions

1. What is meant by an unfavorable balance of trade?

2. What items have to be taken into account in determining the balance of trade?

3. Does the term balance of trade refer to a balance between one nation and another nation or between one nation and the world?

4. The United States imports heavily from South America but exports very little to that continent. Is there any way in which the resulting indebtedness can be settled without a transfer of money? If so, explain how.

5. How did the American colonies pay for their imports of British manufactures?

6. It is argued that imports of foreign goods may result in the necessity of exporting money to pay for them, and that therefore, where such is the case, such imports should be stopped. Do you agree?

7. In the seventeenth century many nations tried to regulate trade so as to bring money into the country and keep it from going out. Was their plan a wise one?

8. Could a country continue to export gold for a long period of time? If not, why not? If so, under what conditions?

9. The value of British imports is nearly $1,000,000,000 in excess of the value of British exports and an excess of imports has continued for many years. How can you explain this?

10. Summarize the history of the balance of trade of the United States, distinguishing periods during which the balance was favorable or unfavorable, and mentioning the causes to which these favorable or unfavorable balances were due.

3. Foreign Exchange and International Payments

1. Make a list of the causes which may lead to a flow of money from one country to another?

2. Explain the steps in the mechanism of foreign exchange by which a Chicago importer can pay a debt which he owes in London.

3. What is the par of exchange? How is it determined?

4. What are the gold points? Why does not exchange normally rise above the upper gold point or fall below the lower gold point?

5. "The nations of the world should adopt a uniform system of currency with a common standard. This would do away with all this bother with 'par of exchange,' 'gold points,' 'rate of exchange,' etc." Why or why not?

6. What persons deal in foreign exchange?

7. "The rate of exchange is simply another case of the application of the principle of demand and supply. Given two trading regions, if the payments due each other are equal, exchange will be at par. If an unequal balance exists, demand will exceed supply and the rate of exchange will move away from parity." Take two regions, assume certain trading operations, and demonstrate the quotation by actual arithmetic.

8. Is the rate of exchange on London likely to fall below par at one period of the year and rise above par at another? If so, when and why?

9. If a Chicago merchant imports coffee from Brazil, and nobody in Brazil imports goods from the United States, how could the debt be paid without the shipment of money?

10. "International payments are made by credit instruments as long as they last. Gold flows only as a last resort." Explain.

11. If there should be a failure of the cotton crop next year, would there be any effect upon international exchange?

12. Would a rise in the rate of interest in New York tend to affect the international flow of gold? Would it tend to affect the rate of exchange on London?

13. How would the opening of rich gold mines in the United States tend to affect the rates of foreign exchange?

14. Would a rise in prices such as took place during the Civil War increase imports?

15. How is a country like England, which has no gold mines, supplied with gold?

16. Can gold have a lower value in England than in the United States?

17. Would the discovery of a rich field of gold in the United States increase or diminish the real wealth of England?

18. How does it concern the people of the United States whether or not a foreign country adopts the gold standard?

19. Would you expect gold to have a lower value in Alaska than in England? How great could such a difference in value be?

4. Regulation of International Trade (with particular reference to the protective tariff)

Questions

1. What is the distinction between a protective tariff and a tariff for revenue only?

2. Why do we not have export duties in the United States?

3. What is the infant-industry argument? Is it economically sound in your opinion? Does it apply to the conditions in the United States today?

4. At one time it was argued that because wages were high in this country a tariff was necessary to protect the manufacturers against European products made by cheaper labor. At a later period it was argued that wages were high because of the tariff, therefore

the tariff should be continued in order to keep up the high level of wages. Can these statements be reconciled? Are they correct?

5. Can one use the infant-industry argument and at the same time argue for a permanent tariff to protect labor without inconsistency?

6. It is argued that the protective tariff by making it profitable to carry on an industry increases the output and engenders a competition which ultimately lowers prices. Would you agree? How does this argument agree with the argument that a permanent tariff is needed?

7. It was once thought by some that if one person gained in trade the other lost. Would you agree? Would such a theory hold true as regards trade between nations?

8. Assuming it to be constitutional, would it be wise for the state of Illinois to levy tariff duties on goods brought in from other states?

9. If the duty on oranges were sufficiently high it might be possible to develop the orange-growing industry in Illinois. Would it not be wise to do so?

10. We have had protection and the country has prospered greatly; therefore protection should be continued. Do you agree?

11. Grant that the country has prospered more than it would have prospered without the protective tariff. Does that establish that we should have had a protective tariff? Might it not have prospered more with some other system of aid to industry?

12. "The protective tariff not only protects American industry; it also forces the European producer to pay for most of the expenses of running our government." Do you agree?

13. "Everything we buy abroad diminishes by so much the demand for American labor." Do you agree?

14. When did the United States adopt a policy of high protective duties and what were the reasons put forward at the time?

15. Why was the South in favor of free trade?

16. Has the attitude of New England toward protection ever varied? If so, when and why?

17. What are the reasons for the growing demand for a reduction of the tariff?

18. Explain the attitude of the different sections of the country toward the tariff at the present time.

19. What arguments can be advanced in favor of continuing the policy of protection at the present time?

20. How would the adoption of free trade affect the American laborer? Which would better protect American labor, high tariff duties or laws restricting immigration?

21. Would it be more economical to aid American industries by giving them a bounty equal to the protective duty instead of that duty?

22. Who really determines whether an industry shall be protected? Who determines what amount of protection shall be given? Is the method a scientific one?

E. THE DISTRIBUTIVE PROCESS

I. Introductory
II. Rent
III. Wages and Trade Unionism
IV. Interest
V. Profits

I. Introductory

We have to do here with the sharing among the members of society of the economic goods produced—of the social dividend. How do men secure shares of this social dividend? What determines the amount of these shares? Of course, these shares are derived ultimately from production, and as industry is now organized the social dividend is distributed in the first instance mainly among the possessors of the productive agents. The laborer receives wages; the landlord, rent; the capitalist, interest; and the entrepreneur, profits. Ordinarily the payment is made in the medium of exchange, money. But money-wages, money-rents, etc., are merely the nominal shares in the distribution of wea th, and are called nominal wages, nominal rents, etc., accordingly. *Real* wages, rents, interest, and profits are shares or specific incomes of goods, and these shares plus taxes, etc., make up the amount of the social income or social dividend—the total of goods available for current use.

The determination of these distributive shares is not of course effected in practice by *formal* division of the social dividend as a lump sum. The term social income does not refer to goods actually collected together as an aggregate, or administered collectively for society. Practically, wages, interest, and rent are fixed by the bargains of entrepreneurs, and represent what they pay for labor and for the use of capital and land. In other words, the problems in distribution are problems in value.

It is not contended that in actual practice all individual incomes are in exact proportion to productive service rendered. In the individual case, shares in the social dividend are secured in many ways and a multitude of forces bear upon the matter. For example, shares of the social dividend are often the result of gift, inheritance, customary or legal appropriation, force, fraud, or theft. Most incomes of adult

persons, however, are received because of direct or indirect participation in the productive process.

Questions

1. Was there any distributive problem when each household was economically self-sufficient?
2. If a man produces one commodity, how does he satisfy his wants? Upon what will his ability to satisfy his wants depend?
3. If a man co-operates with others in making one commodity, can he expect to get more than a share of the product? Try to answer the question: What determines the extent of the share he can secure?
4. "The distribution of wealth has become a practical problem because of specialization in industry." Comment.
5. "The theory of distribution is the theory of value applied to the valuation of productive services." Do you agree?
6. "Since real wages, rent, interest, and profits are shares of goods, they must be paid from the products of industry already past; for the goods which any given land, labor, and capital are in process of producing are not yet available." Why or why not?
7. Can you say which is more important, the productive process or the distributive process? Are they entirely separate and distinct?
8. "The only question of any real significance in economics is the question of distribution. Give us proper distribution." Do you think the amount to be divided has any significance?

II. Rent

1. *Introductory*
2. *The Differential Return* (without necessary reference to any particular system of land ownership)
3. *The Relation of Economic Rent to Contract Rent in a Régime of Private Property*
4. *Rent and Cost of Production*
5. *Rent in Relation to Taxation*
6. *Rent and Social Reform*
7. *Economic Phenomena Analogous to Rent*

1. Introductory

The term Rent is employed by economists in a special and technical sense with reference primarily to the productivity of land. It

is the return for the use of land under conditions which give it superior productiveness.

As has been explained, the size of this return is a question involving the application of the theory of value, and it depends, as always in a value problem, upon demand and supply. At this point the value discussion should be reviewed and the forces and manifestations of both demand and supply should be recalled to mind.

Questions

1. Is the demand for land a case of derived demand? elastic demand? composite demand? joint demand? Show why you answer as you do in each case.

2. In what ways is the supply of land influenced by each of the following forces: (*a*) physical limitation; (*b*) character of the commodity; (*c*) social limitation, either formal or informal; (*d*) cost of production?

3. "In the case of land we have elastic demand and physically limited supply." Do you agree?

2. The Differential Return (without necessary reference to any particular system of ownership)

Let us assume a given demand for the services of land. It is then to be noticed that on the supply side conditions arise in actual practice which give rise to a "differential return." It is worth our while to realize that this "differential return" would exist under any organization of society.

Since the superiority of one piece of agricultural land over another consists in its capacity to yield a given product at lower cost, and since the cost of transportation to market forms part of the cost of production, properly speaking, accessibility of location is no less important than fertility of soil in determining the rent of agricultural land. Hereafter such land will be regarded as good in proportion as it combines fertility with favorable situation. It need scarcely be pointed out that in the case of building sites location is often the only element of practical significance.

Questions

1 (to illustrate agricultural rent by assuming extensive cultivation alone). Suppose that in a certain self-sufficing community there are three plots of land, A, B, and C, of different grades such that the equivalent of 100 days' labor of a man with appropriate tools produces on A 200 bushels of wheat; on B, 150; and on C, 100. That is,

a bushel of wheat costs on A half a day of labor and capital service; on B, two-thirds of a day; on C, 1 day. Obviously A will be cultivated first. B will not be cultivated until the demand for wheat warrants a labor and capital cost of two-thirds of a day per bushel, and C will be cultivated only when the demand warrants a cost of 1 day per bushel. Assuming that the product of each piece of land is limited to the amount specified above, make out a table such as is indicated below, showing the rental in bushels which would be paid for each plot of land under each of the given conditions.

When Demand for Wheat Warrants Cost of	Rental for Land		
	A	B	C
½ day per bushel			
⅔ day per bushel			
1 day per bushel			

2. "In the above question the causal connection is as follows: Demand increases, prices of products rise, therefore it will pay to resort to poorer lands, therefore the community does so, therefore a differential return on the better lands." Do you agree?

3 (to illustrate agricultural rent by assuming intensive cultivation alone). Suppose that land A, as described in the preceding problems, is the only land available. If the application of more than 100 days' labor on this land causes diminishing returns to appear, not more than 200 bushels can be raised at the initial cost per bushel of a half-day's use of labor and capital. Using the same figures as in Question 1, assume demand to increase so that a total of first 100, then 200, and then 300 days' labor is applied with a resultant product of first 200, then 350, and then 450 bushels. Work out the rent in each case. Bear in mind that value in such cases must cover the cost of the marginal, or most costly, unit of the product. The total value of the crop will therefore exceed the total cost of the crop.

4. In actual practice, both intensive and extensive cultivation are resorted to. Formulate a statement defining the amount of rent on a given piece of land.

5. Define extensive margin of cultivation; intensive margin of cultivation. Is there any relation between the two?

6. Assuming demand, the cause of rent is the inadequacy of the better grades of land. This inadequacy depends upon (*a*) the physical scarcity of the better grades of land, and (*b*) the law of diminishing returns. Do you agree?

7. If all land were equally good, could there be rent?

8. Could the worst land under cultivation yield rent?

9. There are two islands, A and B, connected by a bridge. No other land exists. A can be used for cultivation alone, B for habitation alone. (*a*) Can any land on A have rent? on B? (*b*) Can all land on A have rent? on B?

10. Does rent inevitably exist if lands of different fertility are cultivated?—T.

11. Is it quite correct to say that rent is caused by cultivating inferior lands? Could you establish that the cultivation of inferior lands might actually be a check to rent?—T.

12. Can there be rent before all the land of the highest grade has been utilized?—T.

13. The physiocrats thought that rent was due to the bounty of nature. What do you think?

14. What would be the effect upon rent if new land were discovered? if a railroad opened up a new country?

15. If the state owned all the land would there be any rent? Why?

16. Can there be no-rent land? Can there be no no-rent land? Under what conditions?

17. "The doctrine of rent breaks down because the doctrine of marginal cost is absurd. Suppose a man's marginal cost is 70 cents per bushel and wheat is selling for 70 cents. If this man's average cost is 50 cents, he will be under strong incentive to increase his output. Thus marginal cost does not operate as powerfully as average cost in price determination and thus the rent theory breaks down." Why or why not?

3. The Relation of Economic Rent to Contract Rent in a Régime of Private Property

For want of a better term let us call the "scientifically determined differential" discussed in the preceding section *economic rent*. Now, in this present society of ours, the actual payment for the use of land (sometimes called *commercial* or *contract* rent) may be widely different from the economic rent, owing to imperfect competition, custom, long-term contracts, etc.

Questions

1. Assuming perfect competition, establish that (*a*) the landlord cannot exact more than the economic rent from a tenant; (*b*) the tenant cannot secure the use of land without paying as much as the economic rent.

2. Can you cite cases where commercial rent exceeds economic rent? Cases where it is less than economic rent?

3. Does contract rent tend to equal economic rent under the metayer system?

4. What determines the amount which would be paid for the use of: (*a*) timber lands? (*b*) ore-bearing lands? (*c*) city lots? (*d*) factory sites? (*e*) land controlling sources of water power? (*f*) fishing waters?

5. Are tenants likely to make permanent improvements upon rented land? Why?

6. Is the "rent" of a down-town New York office rent in the economic sense of the term?

7. How much could be exacted for the use of land if it afforded an absolute monopoly of the sources of some rare mineral?

8. What is the reason for the assessment for betterments when a street is improved?

9. Are we to term the income yielded by permanent improvements on land rent, interest, or profits?

10. Just what is the relation between commercial rent and economic rent?

11. What were the "corn laws" of England? Why did the land-owning classes oppose their repeal?

12. It is said that the development of the bicycle affected suburban-site rents. Explain.

13. Will agricultural rents increase in the United States? Will urban rents increase? Why? Would your answer be the same for all sections of the country?

14. What would be the effect upon rent of a sudden introduction of agricultural machinery?

15. A 50-acre farm had a normal yield of 20 bushels of wheat per acre and the normal price of wheat was one dollar per bushel. For the effort the farmer put into this crop a return of $500 would have been what he would have secured in other pursuits. (*a*) What was the marginal cost? (*b*) What was his rent? (*c*) If by a temporary corner, wheat were to sell for $1.50 for a few days, would that affect marginal cost? Rent?

16. "The price of land is ordinarily fixed by *capitalizing* the rental —i.e., a person will pay for a piece of land an amount, which if it were used for another investment equally secure and promising, would yield an income equal to the rent of the land." Do you agree?

17. "A man owned a lot which used to rent for $300. A boom occurred so that his property increased in value. Therefore he raised his rent to $400." What is the matter with this statement?—T.

18. Which is true: "High rents result in high agricultural prices," or, "High agricultural prices result in high rents"?—T.

19. A certain site has an annual rental of $300. What would

its price be if the rate of interest were 8 per cent; 6 per cent; 5 per cent? Formulate a general statement of the relation of rent, price of land, and rate of interest.—T.

20. "The price of land depends upon the capitalization of its rental. Thus it happens that an investor in land receives the current rate of interest on his investment. To the business man there is no difference between land and capital. He gets the same rate of return from each." Why or why not?

21. "We all know perfectly well that much land which is not yet used will sell for a good figure. Take, for example, building land at the outskirts of the building section. Yet we are told the price of land is equal to the capitalization of its rental. The capitalization of rental in this case would be zero, yet the land will bring a good price." Comment.

4. Rent and Cost of Production

Questions

1. In the case of a tenant, is the rent he pays one of his expenses of production?

2. If we could translate all the uses of land into one and say that land yielded simply commodity x, would rent be an expense of production to a tenant?

3. Suppose that the tenant mentioned in Question 2 should have his rents remitted by a benevolent landlord, would the tenant increase his output? Would he sell this output at a lower price per bushel? Does the payment of rent affect the price of x?

4. In fact, land is used for many purposes. Does the fact that buildings are erected on better lands than are now used for growing wheat cause the marginal cost of wheat to be greater than it would be otherwise?

5. Is rent determined by cost of production or is cost of production determined by rent in the simple case of one agricultural commodity, as wheat, raised on different grades of land?

6. If the owners of wheat lands mentioned in the last problem refused to be paid for the use of their lands, would the cost of production of wheat be changed?

7. Is rent a result of production, a condition preceding production, or an outlay in course of production, (*a*) in the case of newly reclaimed land wanted for only one use? (*b*) in the case of land which has proved its fitness for many purposes?

5. Rent in Relation to Taxation

Questions

1. Assuming perfect competition and assuming the tenant leaves the land in as good condition as he found it, and assuming the following cases of taxation: (i) a tax upon all lands equal to their economic rent, (ii) a tax upon all lands proportional to their economic rent, (iii) an equal tax upon all lands used, explain: (*a*) Whether the landlord could shift the burden of the tax to the tenant? (*b*) What would be the effect of the tax upon agricultural prices?

2. In actual practice who would be likely to bear the burden of the tax in each of the above cases?

3. How would the price of land be affected in each of the above cases? Would the man who bought the land after the tax had been imposed bear any of the burden of this taxation?

4. How would a tax of 10 cents per bushel on wheat affect rents?

6. Rent and Social Reform

Land is characteristically a free gift of nature, and many of the advantages of owning land are the results of natural or social conditions which the owner has done nothing to bring about. Hence the income of the landlord has been called the *unearned increment*, and social reformers have desired to abolish it.

Questions

1. Give a striking case of the unearned increment from your own experience.

2. Do the rents in Gary constitute a case of unearned increment?

3. Did individuals or society at large create the conditions which caused rent to emerge?

4. Do you consider that the real justification of private property in land is the fact that the acquisition of the land has involved effort and sacrifice, or the fact that land held as private property is more likely to be utilized efficiently for production?

5. Can it be said that at present the rent surplus is practically to be regarded as interest on the money spent in the purchase of the land? Does that make any difference in the justification of rent?

6. "Farm rents should be abolished. They add just so much to the cost of the laborer's food. The state should own the land and then labor could have cheaper food." Comment.—T.

7. Would the amount of available land be changed if private property in land were abandoned?

8. Is land-owning always a profitable matter?

9. Can you specify any gains for society from having private ownership of land?

10. If land nationalization is to be resorted to would you favor accomplishing it by the method of compensation or by that of confiscation? Why?

11. Is it right to buy stolen property? Since land is nature's gift, has one a better right than another to it? Could we justify confiscation by this line of reasoning?

12. Would you regard it as confiscation to tax away all *future* unearned increment? Could it be done?

13. Do you think that land nationalization would result in an assured increase in public income?

14. Do you think a tax on rent would depress industry seriously?

7. Economic Phenomena Analogous to Rent

The principles of rent have often been extended to explain by analogy economic phenomena other than the differential return to land. Thus the excess of the total utility of a commodity over its total cost is called consumers' rent; the excess of interest received for loans of capital above the cost of saving which lenders have incurred is called savers' rent, etc.

Again, the higher earnings of specially skilled workmen or highly efficient entrepreneurs are often likened to rent.

A particularly interesting analogy is presented by the case of capital goods which cannot readily be duplicated or increased in amount, and which thus afford at least temporarily a superior and limited productive service. The return for such services has been called *quasi-rent* and marks the borderland between rent and interest.

III. Wages and Trade Unionism

1. *The Demand for Labor*
2. *The Supply of Labor*
3. *Some Practical Applications of the Principle of Demand and Supply*
4. *The Specific Productivity Theory of Wages*
5. *Trade Unionism*

The problem here is the evaluation of the services of labor.

Wages in a specific case are the payment given for labor service rendered. Strictly, wages are economic goods—commodities and

services (real wages). Practically, labor is paid for in money (money-wages or nominal wages) which gives the laborer command over these goods.

Our discussion will center on the meaning of demand and supply as applied to labor.

1. The Demand for Labor

Questions

1. Is the demand for labor a derived demand? a composite demand? a joint demand? an elastic demand? a case where the principle of substitution has wide play? Prove your answer in each case.

2. In determining the wage of a particular man, are we concerned with the "demand for labor in general," or with the demand for labor of the kinds he can furnish, or with the demand for labor in his trade?

3. Since labor is in demand simply as a means to the attainment of the utilities it serves to produce, the maximum price which will be paid for labor can never normally exceed the normal price of the product. Whenever land, tools, etc., are necessary in production the maximum price which could be paid for labor will be less than the price of the product by the amount which must be spent for the use of the other productive factors. And whenever a substitute for labor (e.g., machinery) is available, the demand for labor is in so far reduced. Do you agree?

4. Is the demand for the labor of footmen direct or derived? Is it a joint demand?

5. Are these acts necessarily offers of employment to labor: (*a*) an offer to purchase a watch; (*b*) an offer to let a contract to build a $100,000 house; (*c*) investment of $1,000 in a savings bank?

6. Does a demand for antiques, paintings by old masters, etc., affect the general demand for labor?

7. Is the demand for commodities already manufactured a demand for labor?

8. If it takes 20 days to make an automobile, does an order for immediate delivery of an automobile create a demand for labor?

9. Does the manufacture of shoes create a demand for the employment of labor in other industries?

10. Will wages be higher in a sparsely settled country or in a densely settled country, assuming rich natural resources in each case?

11. Speaking generally, does the laborer gain or lose by working under conditions of abundance of land and capital?

12. If a factory town is destroyed by fire will wages throughout the country at large rise or fall?

13. Why should not the farmer who uses good land pay higher wages than the farmer on poorer land, instead of paying rent?

14. "Labor is desired for its productivity. Demand for labor cannot exceed its productivity, and as there is a law of diminishing returns in industry we get the typical declining demand curve." Why? Does the quotation mean that we can separate the productivity of labor from that of co-operating factors?

15. Make a list of the factors affecting the demand for street cleaners in Chicago; a physician in a small town; a barber.

2. Supply of Labor

When we were discussing the topic "value" we treated the forces of supply under the following headings:

i. Physical Limitation
ii. Character of the Commodity
iii. Social Limitation, Formal and Informal
iv. Monopolistic Limitation
v. Cost of Production

These forces apply in the case of the supply of labor.

Questions

1. Is there at a given moment any physical limitation of labor supply?

2. What relation exists between standard of living and supply of labor?

3. Ordinarily an increased demand for a commodity which is not absolutely limited in amount will result in an increased supply. To what extent would this be true of laborers? of labor?

4. To what degrees and in what ways is the supply of labor service affected by (*a*) perishability? (*b*) difficulty of transportation?

5. "The owner of labor cannot be separated from the commodity he sells. He must deliver it in person. This makes a difference in the supply of labor." How?

6. Cite cases where formal social limitation affects the supply of labor; cases where informal social limitation affects it.

7. Do you think that immigration increases the supply of labor?

8. Under which of the forces of supply indicated above come all the various factors making for individual efficiency? Does individual efficiency enter into demand also?

9. Cite cases of monopolistic limitation of the supply of labor.

10. Does cost of production in the case of labor mean (*a*) mere subsistence of the particular laborer? (*b*) mere subsistence plus a

return for expense of training? (*c*) sufficient return to enable a laborer to rear a family? If the last, how large a family?

11. Does what it "cost to produce" a given laborer determine his wage? Does it have any bearing on the rate of wages in the future?

12. Does the amount of labor which will be supplied depend to any extent upon the rate of wages?

3. Some Practical Applications of the Principle of Demand and Supply with Reference to Wages

Questions

1. It has been said that an increase in the number of laborers cannot depress general wages because this increase implies a corresponding increase in consumption and in demand for labor. Is anything overlooked in this argument?

2. What would be the effect upon wages of a sudden introduction of machinery?

3. Why are the wages of skilled managers greater than those of street cleaners?

4. Why are the wages of servants higher in the United States than in England for the same grade of service?

5. What would you have to pay a cook in an Alaskan gold-mining camp?

6. Laborers on railway embankments in India were paid, according to Mr. Brassey, from 9 to 12 cents a day, but in England from 75 to 87 cents a day, and yet the expense of building a mile of railway was about the same in the two places. How do you account for this?

7. When Oregon was held by the Modocs and other Indians, it was as rich in natural resources as now. Did the Modocs get as high wages as settlers do now? What is the reason for the vast difference between their earnings?

8. Does unskilled labor suffer as much as skilled by forced changes to new employment?

9. Can laborers, by strikes and combinations, raise their wages to a point where nothing is left for capital and interest? Why not?

10. Differences of wages have been classified as follows:

(1) Differences of Wages for Different Employments.
   (i) Differences tending to equalize the advantages of all occupations by making reward proportionate to effort and sacrifice.
   (ii) Differences arising from the more or less limited number of persons whose aptitudes, inborn or acquired, permit them adequately to perform a given task.

(2) Differences of Wages for Different Persons in a Given Employment.

Differences corresponding to differences of efficiency.

Explain wherein each of these differences is due to conditions of demand and wherein due to conditions of supply.

11. Do differences of wages as between occupations correspond to differences in the marginal productivity of labor?

12. In a certain office a man and a woman are sitting side by side doing the same work. The woman is, if anything, more efficient than the man. Her wage is considerably lower. Explain how this can be?

13. What reasons can you offer to explain why the wages of women are generally lower than the wages of men?

14. If trade unions could establish a rule that women should have the same wages as men wherever they are employed in similar work would men or women derive the greater benefit from the rule?

15. If we had a caste system would there be a series of non-competing groups?

16. Do social groups, whether based upon wealth, education, social position, unusual ability, etc., bring about a condition of non-competing groups?

17. In the United States are the barriers between groups effective barriers?

18. "To secure the practical results of free competition as between employments it is not necessary that every person in any one employment shall be free to change to another. If a few are mobile their shifting will ordinarily suffice to adjust the supply of labor to the demand in each employment." Do you agree? What bearing has this on the theory of non-competing groups?

19. "Competition between apparently non-competing groups is in some cases made operative by an application of the principle of substitution. It may be possible, e.g., to replace skilled laborers by unskilled laborers working with improved machinery. The gap which exists between the two grades of labor is here bridged by substituting capital for superior skill of workmen." Do you agree?

20. What effect on wages should you expect as a result of better provisions for free technical education?

21. Are the farmer, the miller, and the baker members of the same group of laborers, or of competing groups, or of non-competing groups?

22. Allowing for all the influences thus far considered, what conditions fix the maximum and minimum limits to the rate of wages in a particular case?

23. What determines the wage actually paid, within the limits above mentioned?

4. The Specific Productivity Theory of Wages

The value of labor appears to depend on the efficacy of labor. The efficacy of labor in turn depends on the manner in which labor is employed. Under certain conditions of demand and supply, labor may be used in conjunction with land and capital so inadequate that the product of the industry is restricted by the intensive operation of the principle of diminishing returns. In such cases where the labor force is disproportionately large, the product per laborer will be small.

This suggests the principle that individual wages for a given grade of labor will not exceed the amount which is added to the product by the effort of the marginal laborer; that if the supply of labor is not excessive, and if laborers are able to exact favorable terms of employment on account of competition among persons who wish to hire them, wages will not fall substantially below the amount of the product added by the marginal laborer. The term "marginal laborer" means here, as most commonly, not the least competent laborer but the laborer of normal capacity employed under the conditions least favorable for his productiveness.

The theory that wages correspond to the marginal productivity of labor (i.e., to the productivity of those laborers who are least effectually employed) is known as the specific productivity theory of wages. Its adequacy to explain actual wages is disputed. At least it affords an interesting suggestion for the analysis of the demand for labor.

Questions

1. Why should laborers in general consent to the remuneration which conforms to the product of the marginal laborer—i.e., of the laborer employed under most unfavorable circumstances? Could they force the employer to pay more?

2. Can the laborers control the conditions which make the marginal productivity of labor small?

3. Suppose an increase in the number of persons seeking employment as laborers without any increase in the number of consumers of the products of labor: What will be the effect on wages? Will this effect be due to change in the marginal utility of the product or to change in the marginal productivity of labor?

4. Show that the specific productivity theory of wages is in accord with the demand-and-supply theory.

5. Trade Unionism

a) *Causes of Trade Unionism*
b) *Trade Union Organization and Demands*
c) *Trade Union Theory*
d) *Trade Union Policies and Methods*
e) *The Social Problem of Unionism*

Trade unions, like railroads and trusts, are an important factor in the productive organization of industry. The unions have developed into a complex organic network which tends to parallel the pecuniary and political organization of society and influences eventually the productive process.

Trade unions are discussed in this outline under the distributive process because they are organized to secure, primarily, higher wages, shorter hours, and better conditions of employment generally for their members. They seek these ends by a great variety of means. Prominent among these means are: (1) the establishment of a standard or uniform rate of wages for each kind of work; (2) the fixing of a normal or uniform working day or week; (3) the establishment of standard or uniform methods of work and processes of production; (4) limitation and control of the speed and output of the workers; (5) entrance restrictions and apprenticeship regulations; (6) arbitration and conciliation; (7) strikes and boycotts; (8) trade union insurance, and (9) labor legislation.

The activity of trade unions has of late greatly stimulated the organization of employers' associations. Some understanding of these associations is essential to an estimate of the significance of unionism.

a) *Causes of Trade Unionism*

Questions

1. How do the economic functions, status, and social environment of the wage-workers and the employers differ essentially?
2. What is it that has caused these differences and what was their historical origin?
3. Do such differences create diverse notions on the part of workers and employers in regard to justice, rights, and importance of economic functions?
4. If you were a wage-worker would you feel that your interests and those of your employer were essentially opposed in any vital matters?

5. Under the conditions of capitalistic production and distribution has the individual employer a distinct advantage over the individual worker in the bargaining which immediately fixes wages and conditions of employment?

6. Under modern conditions is the employer disposed or forced to exercise to the full extent any bargaining advantage which he may have over the workers?

7. Under what circumstances and in what ways might trade unions be of distinct advantage to employers?

8. As a matter of fact, when and under what circumstances were trade unions first organized?

9. Are unions at the present time usually of spontaneous origin? What circumstances ordinarily lead to their organization?

b) Trade Union Organization and Demands

QUESTIONS

1. What are the essential differences between a trade union, an industrial union, and a labor union? Name an example of each type.

2. What is a local union? What is a national or international union? What are the general relations between the local and the national union?

3. Name ten important national or international unions. About how many such unions exist in this country? What are the principal federations and groups of such unions in America?

4. What are the principal structural units which make up the American Federation of Labor, and what are their organic relationships?

5. What, in general, are the functions and functional relationships of each of these units?

6. What are the principal union officers? Describe the duties ordinarily performed by the secretary, the organizer, the walking delegate or business agent. What is the sovereign union authority?

7. What is the organic strength of the American Federation of Labor? What is its general political, economic, and social attitude and what are its most important demands?

c) Trade Union Theory

QUESTIONS

1. Some unionists look with disfavor upon the individual who "uses up more than his share of the demand for work." Examine the practical validity of this attitude.

2. Why do unions attempt to establish the principle of uniformity with respect to wage rates, hours of work, and conditions of employment generally in a trade?

3. By what arguments do unions support their attempts to limit and control the speed and output of workers?

4. On what grounds do unions attempt to limit the numbers and control the workers in a trade?

5. Employers claim that unions attèmpt to prevent the introduction of machinery and improved processes. How would union advocates justify such attempts?

6. Unionists claim that "high wages breed high wages." On what assumptions is this claim based? Are they legitimate assumptions?

7. Can shorter hours and better conditions of employment be secured by all workers without lowering the wages of some?

8. When one set of workers secures higher wages without increasing their output, must someone else suffer? If so, who?

9. Will increase of the efficiency of one group of workers necessarily increase their wages or make it possible for them to secure higher wages?

10. If the anthracite coal miners forced the mine owners to grant a 20 per cent increase in wages, who might foot the bill?

d) Trade Union Policies and Methods

QUESTIONS

1. What is the practice of unions in regard to the admission of members? If the union refuses to admit a capable man does the union gain? Does anyone besides the debarred worker suffer?

2. What is the policy of unions in regard to apprenticeship? Is union apprenticeship an effective method of training skilled workers? What are the actual purposes of unions in maintaining the apprenticeship system?

3. Unionists claim that they favor industrial education "when it does not play into the hands of the employers." Explain this statement.

4. Most unions demand and attempt to enforce the union or closed shop; most employers are bitterly opposed to it. Why in each case?

5. Unions attempt to establish a minimum wage for each kind of work and a maximum number of hours that a man may work. Why, in each case?

6. In many recent wage disputes agreement was reached by three men—a representative of the employers, a representative of the unions, and a third chosen by these two. What is this mode of settling

disputes called? How does it differ essentially from collective bargaining? What are the relative merits of the two methods?

7. Trade agreements between employers and unions frequently cover thirty or more subjects. What are some of the more important of these subjects? Why do unions insist on such complex bargains? Who negotiates such agreements for the unions?

8. Can a strike increase wages? Can a strike raise the wages of workers not engaged in it? Is every increase of wages by strike a cause of lower wages? What are the principal reasons given for calling strikes? Most trade unionists claim that they do not favor strikes; why, then, are unions and strikes closely associated in the public mind? In Philadelphia recently the workers in many manufacturing establishments walked out because the street-car men were on strike; what is the purpose of such action? What is such a strike called? Is it legal?

9. In the last telegrapher's strike in Chicago workers in front of the Western Union offices were arrested for "vagrancy." What strike duty were they performing at the time? Was their occupation legal?

10. Unions are violently opposed to "scabs" and "rats," and such persons frequently fall into the hands of "educational committees." Explain the meaning of this statement. If you were a unionist would you have the same attitude toward scabs, and if so, why? Unionists claim that they discountenance violence in strikes but that the government almost always favors the employers in the use of the police force; reconcile these statements.

11. In a labor controversy the employer sometimes discharges all the workers; what is this action called? Has the employer a right so to discharge? A worker frequently complains that he cannot get work because he is blacklisted; what is the meaning of this? Are blacklists legal? What are their chief faults?

12. What is an injunction? What is the present law in regard to the issue of injunctions? What can be enjoined in a contest between workers and employers? Why are injunctions especially effective in suppressing strikes?

13. Do the unions act as effective employment agencies? Why does a good unionist demand "union labor goods"? What kinds of insurance do the unions offer to their members? It is said that a full union treasury and strike benefits are effective means of raising wages; how does this square with the theory of wages?

14. What are the chief employers' associations in the United States? What are the main methods used by employers' associations in fighting unions? Can trade unions maintain an effective opposition to employers' associations and trusts?

15. Many employers declare that they believe in trade unions. What reasons are there for such a statement?

e) The Social Problem of Unionism

QUESTIONS

1. Samuel Gompers believes that trade unions are one of the greatest educative forces in the country. Can you find grounds for this belief?

2. If all the workers belonged to the unions, could the wages and conditions of employment be raised for all by union policies and methods?

3. It is said that unions create an aristocracy of labor. Is it better socially to have a few workers highly paid and many poorly paid than to have all workers very moderately paid?

4. In some trades the American standard of living is threatened by the competition of immigrants satisfied with low wages and poor living conditions. Are the unions performing a social service in attempting to maintain the American standard in these trades at all hazards and by all means?

5. If trade unions and employers are opposed, industry is likely to be unproductive and the public service interrupted; if the unions and employers combine, monopoly is likely to be the outcome. Is there any escape from this dilemma?

6. Periodically the supply of coal is threatened by a disagreement between united mine workers and the mine owners. Is this an effective argument for government ownership of the coal mines?

7. Would it be well to have a law in the United States similar to that of New Zealand providing for the compulsory arbitration of trade disputes? What is the attitude of the employers and unions in this country toward compulsory arbitration, and why?

8. Would it be well to have a law in this country providing for a government investigation of all cases where strikes or lockouts are threatened on public utilities and mines, and the publication of the facts before a strike or lockout would be permitted?

IV. Interest

1. *Introductory*
2. *The Demand for Capital*
3. *The Supply of Capital*
4. *General Questions on Interest*

1. Introductory

Interest is the income from the use of capital. It is a part of the social dividend and represents the price paid for the services of capital.

Capital has been defined as wealth used for further production. This is capital from the point of view of society, or *social capital*. All such capital is producers' goods. There are, however, some forms of consumers' goods which, while not capital to society, still are not used directly to satisfy the wants of the owner, but only as a means for obtaining an income—e.g., a dwelling rented to another person. These goods are *acquisitive capital*. Either kind of capital may yield interest.

The business man, as has previously been suggested, frequently speaks of the sum total of wealth invested in his business as his capital, regardless of whether this wealth consist of land, machinery, or wages advanced to labor. Similarly, he is apt to speak of the return from any income-yielding investment as interest, irrespective of the question whether the income is derived from capital, land, or any other source.

The question where to draw the line between interest and profits is something upon which economists have not entirely agreed. For present purposes we may, however, distinguish: (*a*) the return to capital; (*b*) the compensation for risks and for the uncertainties of industry; (*c*) the wages of superintendence—a reward for the effort and skill of management; (*d*) the return due to superior bargaining position. The first of these is interest. The last three are usually included under profits, though some persons argue that the third should properly go under wages, and apply the term profits to a return of a different sort.

Questions

1. Can any part of the earnings of a bootblack be called interest?

2. Is the income derived from the following interest: a railroad bond; a share of stock in a land company; a share of stock in a coal-mining company?

3. A business man receives a salary of $10,000 a year as president and manager of a shoe-manufacturing concern; he receives a dividend on some stock in the same company which he happens to own; he is an active partner in a profitable leather firm; he owns a 5 per cent mortgage on some city real estate, 100 shares of stock in the U.S. Steel Company, 50 shares in the American Tobacco Company, and has a savings bank deposit paying 3 per cent. What would you call the income received in each case?

4. When a concern declares an unearned dividend is the stockholder getting interest?

2. The Demand for Capital

Questions

1. Is the demand for capital a derived demand? a composite demand? a joint demand? an elastic demand? a case where the principle of substitution has wide play?

2. Is the demand for capital made up merely of demand for producers' goods?

3. Is the demand for shoes, overalls, candy, steel rails, a demand for capital?

4. Would a new and important invention increase the demand for capital? Would the discovery of a valuable lead mine?

5. How would a rapid increase in the supply of labor affect the demand for capital?

6. Why do people who borrow money to buy consumers' goods which result in no new product have to pay the same rate as if they were borrowing to pay for productive capital?

7. Does the demand for capital depend upon its productivity? If so, what factors make for large productivity? What ones for small productivity?

8. How did the destruction of San Francisco affect the demand for capital?—T.

3. The Supply of Capital

Questions

1. Are there physical limitations to the supply of capital? social limitations? monopolistic limitations? cost of production limitations?

2. How would a sudden increase in the efficiency of industry affect the supply of capital?

3. In what ways might a more general and a better education of the people affect the supply of capital?

4. How does the constant breaking out of war among the Central American states affect their supply of capital?

5. How did the destruction of San Francisco affect the supply of capital?

6. "In so far as cost of production affects the supply of capital there are two factors concerned: (*a*) the cost of producing *wealth;* (*b*) the cost of *saving wealth.*" Why or why not?

7. Capital is the result of saving and the supply of capital depends on the amount saved. That in turn depends upon (*a*) the savable fund, and (*b*) the effective desire of accumulation. Do you agree?

8. Some persons would set aside and save some of their funds apart from any intention to invest them profitably. But it has been found that more capital can profitably be used than would thus be supplied; in short, the demand is greater than the supply which would be forthcoming if it were not for the payment of interest. Therefore, in order to secure additional capital, a premium is given in the form of interest. Do you agree?

9. The rate of interest has to be sufficient to compensate for the sacrifice made in saving the last or marginal unit of capital—the unit which represents the greatest sacrifice in saving. Why or why not?

4. General Questions on Interest

Questions

1. Can you reconcile the statement that the rate of interest is determined by the marginal productivity of capital with the statement that it is determined by demand and supply?

2. It has also been stated that it is the difference between the estimation of the present and future value of the last unit of capital saved which determines the rate of interest. Can you reconcile this with the previous statements?

3. How can you explain the fact that several centuries ago the rate of interest on investments in Holland was around 2 per cent, while today it is considerably above that?

4. Can legislation effectively regulate the rate of interest?

5. Is interest different from usury? If so, what is the difference?

6. Is capital mobile? Does it move freely from one country to another? How extensive is the market for capital?

7. Are there differences in the rate of interest as between different places or different occupations which cannot be explained by differences in risks?

8. Why has the rate of return on investments been around 10 per cent in the West, 7 per cent in the Central states, 5 per cent in New York, and 4 per cent in Germany?

9. Does the net return from an investment in capital such as a steel plant tend to equal the net return from the same amount of money invested in land, assuming the risk to be the same?

10. Does the existence of fixed capital tend to cause differences in the rate of return on investments of that character?

11. Interest is a return over and above the amount required to replace the principal. Do you agree?

12. It is said that interest is paid for capital, not for money. Is this true?

13. What is the money market? Who are the buyers and sellers? What do they buy and sell?

14. Does the supply of money on the market affect the rate of interest?

15. When gold is leaving England the Bank of England raises the rates of discount. Does this show that the amount of money determines the rate of interest?

V. Profits

1. *Introductory*
2. *The Risks of Industry*
3. *General Questions on Profits*

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1. Introductory

Profits are the share of the industrial product which goes to the entrepreneur. The chief elements entering into profits are —

a) The wages of management, a return for accepting the labor and burden of management. This element tends to equal the amount which the manager could get if he were employed at a fixed salary. Some prefer to classify this under the head of wages.

b) A gain or loss resulting from the risks inevitable in industry. Not only is there uncertainty in undertaking a new industry, but the more or less extended period of time required for production leaves any industry subject to the risks arising from chance or uncertain events.

c) An acquisitive gain due to superior bargaining power, whether due to monopolistic or other conditions. For example, monopolistic position may enable the charging of higher prices for products, the paying of lower prices for materials, the control of labor supply, the acquisition of special privileges from public and semi-public bodies, such as low taxation and railway rebates, etc.

Questions

1. Are the following entrepreneurs: a cobbler, a farmer, a consulting engineer, the boss of a section gang, a banker?

2. In a corporation there may be bondholders, stockholders, directors, a president, treasurer, and general manager. Who is the entrepreneur?

3. Should the income of an inventor be classified as wages or profits?

4. A promoter buys up various street railway lines, forms a new company, which is greatly over-capitalized, and sells the stock at a gain. Is the gain profit, and if so, what kind of profit?

5. What sort of profit do you think has been the basis of most of the more recently acquired large fortunes in this country? Are they a result of acquisitive or productive effort? What have the owners done to serve society?

6. The syndicate which underwrote the securities of the U.S. Steel Company is said to have made over $40,000,000. Was that profit? Do you think it was earned?

7. Give an illustration taken from the business world of each of the different sources of profit mentioned in the classification given above.

2. The Risks of Industry

a) *The Nature of Industrial Risks*
b) *Speculation in Relation to Risks*
c) *Insurance in Relation to Risks*

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a) *The Nature of Industrial Risks*

Questions

1. Describe some of the chief risks in industry. Group these into classes.

2. Is the process of production in modern industry spread over a longer period of time and is it more roundabout than formerly? How does this affect risks?

3. If conditions remained perfectly static, so that a person could foretell just what the future would bring forth, would risks disappear? Would the assumption of static conditions rule out climatic changes? Do you think risks are likely to disappear?

4. Are risks greater in a changing condition of industry? Why or why not?

5. Is it possible by foresight and calculation to reduce some of the risks of industry? all of the risks of industry?

6. Is it possible by foresight and calculation to avoid some of the risks of industry? all of the risks of industry?

7. If we were to have a socialistic society would risks disappear?

b) *Speculation* (especially in its relation to risks)

We may distinguish two forms of speculation: (*a*) industrial; (*b*) commercial. Industrial speculation consists in preparing for market, by changing the form, products the demand for which is uncertain, or products whose conditions of production are unknown or shifting. Commercial speculation consists in buying goods in one market and selling them in another where different price conditions prevail and in buying at one time for sale in a more or less remote time. A certain degree of speculation is inherent in all competitive business. Successful speculation involves profits; the speculator is, however, always exposed to losses.

Both industrial and commercial speculation are carried on largely by persons who make a careful study of conditions of supply and demand, and are therefore better fitted to perform this function than are others. The chances of sudden wealth, however, attract to the speculative market large numbers of men who have no special knowledge of conditions affecting the goods in which they deal. Not only do they usually suffer personal losses; but through rash buying when prices tend to rise and precipitate selling when prices tend to fall they exaggerate the natural tendency toward price fluctuation. There are also men who are skilled in market conditions who manipulate the market and cause fluctuations which would not otherwise exist.

When a speculative market has developed, the actual producers of commodities can frequently transfer many of the risks of price change to the professional speculator. In a speculative market contracts for purchases or sales may be made at any time, to mature at some future period. A man who contemplates producing pig iron may insure himself against a price insufficient to cover materials and other expenses by selling pig iron for future delivery to a speculator. If the price of pig iron declines it is the speculator who bears the loss. When the finished product is not of a character to admit of speculative dealings, the manufacturer may nevertheless insure himself against serious price fluctuations by speculative dealings in the raw materials, since the finished product and the raw material usually undergo parallel price fluctuations. An example (adapted from Taylor) will illustrate:

If quotations are for

Cash wheat in February	$1.02
May wheat in February	1.04
Cash wheat in May	1.01

then the transaction will be as follows:

February Wheat Account		May Wheat Account	
Cost of cash wheat	$10,200	Received for "short sale" of May wheat in February	$10,400
Storage, insurance, interest, etc.	250	Cost of cash wheat in May to "cover"	10,100
Total cost in wheat	10,450		
Value in May of the wheat used in making the flour	10,100	Profit on transaction	$300
Miller's loss by fall in price	$350		

Thus of the $350 lost on the February wheat $300 is made up by the "hedging" transaction in May wheat.

Questions

1. Work out the above case of dealing in wheat, substituting, as the price of cash wheat in May, (*a*) $1.08, (*b*) $0.90.

2. Do men speculate because prices fluctuate or do prices fluctuate because men speculate?

3. A certain cotton manufacturer displays great ability in the production of cloth, but he is nevertheless barely able to keep his head above water, because he is a poor judge of the raw cotton market and is more likely than not to buy when prices are inflated. Show how he could liberate himself from the consequences of this defect of judgment.

4. Miller A always covers purchases of wheat for milling by corresponding short sales. Miller B boasts that he is no speculator, and refrains entirely from transactions on the exchanges. Whether prices rise or fall, A is insured his miller's profit, and never receives more. If prices rise, B makes a profit over and above his miller's profit. When prices fall, not only may his miller's profit be wiped out, but he may incur additional losses. Which one is really the speculator?

5. In 1906 a shipment of Dakota grain was sent by way of Seattle to Japan. By the time the grain reached Japan the prices of wheat there had fallen so low that this shipment was reconsigned to Liverpool, and sold at a price inferior to that paid for the wheat in Dakota. Did the actual shippers of the wheat necessarily lose on the transaction?

6. Speculators are often regarded as mere gamblers. If the whole body of speculators were to cease buying and selling grain, and limited themselves to betting upon the course of prices, would the work of commerce and industry be carried on exactly as it is at present?

7. Farmers often urge the abolition of speculative exchanges on the ground that they depress the price of produce; millers and spinners urge this abolition on the ground that they enhance prices. What is your opinion of the situation?

8. Would speculation be destroyed if the organized speculation of the exchanges were prohibited by law?

9. Short sales are often attacked on the ground that they create an artificial increase in supply and so tend to depress prices. What is your criticism of this view?

10. Short sales of land are by nature impossible. Does this fact interfere with speculation in land, or make such speculation less hazardous than speculation in produce or securities?

11. During the Civil War certain wool manufacturers made enormous profits because of the rise in price of raw materials which they had on hand. After the war there were cases where these profits were nearly wiped out by losses consequent upon the fall in prices of raw materials. Explain. Could the loss have been avoided?

12. Industrial speculation anticipates the wants of society. If the speculator has judged wisely, society is better provided with goods than it would have been had its entrepreneurs been averse to taking chances. If the speculator has miscalculated, he incurs a pecuniary loss and society suffers from wasted resources. Is this true? Write out a similar statement concerning commercial speculation.

13. State briefly your opinion of the relation of speculation to industry.

14. How do you distinguish between socially desirable and socially undesirable speculation?

c) *Insurance* (especially in relation to risks)

The discussion of speculation showed that in many cases speculative markets make insurance against risks possible. Insurance is used in this present section with particular reference to the definitely organized business of insurance, e.g., fire insurance, etc.

Questions

1. Why do people insure against risk? What is the service performed by an insurance company? Does it decrease risks? Is insurance productive?

2. What determines the premium paid for insurance?

3. At the time of the coronation of King Edward VII London tradesmen took out insurance against his death. Why? Is such a service of benefit to society?

4. Does insurance, such as fire insurance or plate-glass insurance, enter into the cost of production?

5. Suppose that a certain corporation owns 500 buildings each worth $100,000; that to insure in an ordinary company would cost the corporation $250 a year on each building; and that the corporation is convinced that by an expenditure of $10,000 the fire loss can be reduced to an average of one building every three years. Would it pay the corporation to insure in an insurance company?—T.

6. Is the number of fires likely to be increased by the fact that buildings are insured?

7. In some cities the fire-insurance companies contribute heavily to the maintenance of fire departments. Is this properly a part of the insurance business?

8. One insurance company has insured buildings pretty generally throughout the country; another has confined itself exclusively to a certain city. With which would you prefer to insure your property, and why?

9. Insurance, like speculation, has sometimes been likened to betting. I pay $36 to a certain company; if my house burns down within three years, the company pays me $3,000. This means, in a certain way of thinking, that I bet $36 against $3,000 that my house will burn down. Is this a proper view of the situation? If I were a gambler by disposition, would I be likely to insure my house?

10. Is it possible for manufacturing concerns to unite, apply fire protection scientifically, exclude those who will not protect, and reduce fire losses to a minimum? Is that an advantage to society?

11. Why are there no insurance companies that undertake to insure producers against price fluctuations?

12. Why should not insurance companies undertake to bear the risks of business and to pay (or charge) to entrepreneurs a fixed annual sum in commutation?

3. General Questions on Profits

The student should keep in mind the fact that the subject of profits covers losses as well as gains. Differences in profits are not simply the difference between a large profit and no profit, but also the difference between a large profit and a heavy loss.

Questions

1. Do profits tend to an equilibrium as between different individuals? different occupations? different places?

2. It is said profits and losses in a given industry tend to balance each other. Is this true of gold mining?

3. Are differences in profits due more to skill and ability than to chance?

4. Are the profits of a business man a good measure of his service to society in the production of wealth?

5. Do profits enter into cost of production?

6. If an industry were generally depressed, but one employer were by exception making high profits, what rate of wages would he pay? If industry were prosperous, but one were by exception making no profit, what rate of wages would he pay?

7. After a change in industrial methods which greatly increases productive capacity, profits are commonly no greater than before; yet after all we depend on the self-interest of the entrepreneur and his desire for profit to secure both (*a*) the introduction of better methods and (*b*) their maintenance after introduction. Explain how this can be.

8. In what way will a sudden depreciation of the currency affect profits? a sudden appreciation?

9. "Profits as a return for risk is nonsense. We know that many men engage in industry because they love independence and delight in risks. They would engage in industry even if there were no return to risk." Comment.

10. "There is a tendency for competitive profits to disappear." Do you agree?

11. "Monopoly profits are more likely to be permanent than competitive profits." Do you agree?

12. "Profits are analogous to rent in that the skilled risk-taker gets a differential return over the risk-taker of ordinary capacity." Why or why not?

13. "In a new industry profits really arise from the fact that the other factors of production are more productive in that industry, while the enterpriser is able to secure them at the old rate." Do you agree? If all industries were to become of this class would the return to the other factors remain at the old level?

14. "The enterpriser is the residual claimant of industry." What does this mean? Do you agree?

15. "Profits are a great factor in promoting economic progress." "Profits are unnecessary. These gains should go to the other factors of production." With which statement do you agree? Does it make any difference whether the profits spoken of are monopoly profits or competitive profits?

16. What definition of profits do you accept? Does the law of demand and supply operate here?

F. PUBLIC FINANCE AND TAXATION

I. The Forms of Public Expenditure

II. The Sources of Public Revenue

I. The Forms of Public Expenditure

QUESTIONS

1. Draw up a classified list showing the more important items of expenditure of the federal, state, and local governments in the United States.

2. Why should the following facilities and services be provided by the government rather than by private persons: military defense; police; administration of justice; postal service; roads; lighthouses; parks and playgrounds; sanitation; asylums; poor relief; protection against fire; libraries; museums; street-lighting?

3. From a purely selfish viewpoint is it to the advantage of particular individuals to avoid the payment of taxes? Would it be advantageous if everyone avoided taxation?

4. If the government renders services which are greater in proportion to the money spent than individuals could procure for themselves, why should the poor be exempt from contributions to the support of government?

5. Should government expenditures be absolutely small, or merely small in relation to the benefits to be secured?

6. Are public expenditures in general, at the present day, increasing in scale? in range? Why?

II The Sources of Public Revenue

1. *Public Loans*
2. *Public Domain*
3. *Public Industries and Investments*
4. *Fees and Assessments*
5. *Taxation*

1. Public Loans

By borrowing, a government may utilize unemployed private capital in meeting extraordinary needs for expenditures too great to be paid from the ordinary public revenues. The burden of the loan can thus be distributed over a series of years by payments for interest and sinking fund. Such borrowing may become an abuse if it results in pledging the income of the future for merely present benefits. It is justifiable in the adjusting of slight temporary deficits, and also (1) as a means of tiding over some great emergency, or (2) to provide for government investments on capital account from which is expected to result either (*a*) a definite income sufficient to cover the interest and the ultimate repayment of the principal of the loan, or (*b*) a real and lasting, though less tangible, benefit accruing in the future.

Questions

1. A municipality sells bonds (*a*) to build a schoolhouse; (*b*) to install a system of sewers; (*c*) to construct waterworks; (*d*) to provide a public display of fireworks on the Fourth of July. Which of these transactions meet your approval?

2. Are the Panama Canal bonds a legitimate source of public revenue?

3. On what grounds can you justify the bond issues of the United States during the Civil War?

4. When a government issues paper money in the form of notes redeemable in gold on demand is it borrowing?

5. What are the advantages or disadvantages of note issue as contrasted with bond issue for purposes of public finance? Do the circulating notes bear interest? Are they sure to be ultimately presented for payment?

6. During the latter part of the Civil War the United States government issued large quantities of greenbacks in exchange for supplies bought at the high prices then prevailing as a result of the inflation of the currency by previous issues. Subsequently the government has been redeeming the greenbacks in gold in times of much lower prices. Was the transaction wise?

7. The Cleveland administration, at the time of the currency troubles of 1893, resorted to the sale of bonds and paid out the proceeds in redemption of the greenbacks and treasury notes which were being presented for payment. This expedient has been much criticized. Do you think it was appropriate?

2. Public Domain

The public domain, which was an important source of revenue in feudal times and in monarchies which preserved the usages of

feudalism, yields little income in the United States. This is due to the fact that here the general policy has been to grant public lands, etc., on easy terms to private owners, rather than to exact payment for their use. Possibly the charging of royalties for the use of timber and mineral lands and for water power may become more prevalent. At present the revenue thus derived is so slight as to be unimportant especially in view of the expenses of maintaining the public domain.

3. Public Industries and Investments

The primary purpose of governmental industry may be (1) to restrict the use of certain commodities, as opium, alcohol; (2) to render improved service; (3) to maintain a so-called fiscal monopoly. In the first and second cases revenue is more or less incidental; in the third the expectation of revenue is the dominant motive.

Questions

1. What forms of public industry are maintained in this country, and what is the reason for state control in each case?
2. Is the government mail service either fiscal or restrictive in character?
3. What is the purpose of the tobacco monopoly of the French government?

4. Fees and Assessments

A *fee* is a contribution exacted from a person (natural or corporate) to defray in part or in full the expense involved in a specific service rendered him by the government: e.g., the fees in connection with court proceedings, with the issue of certificates of various sorts, or with special facilities rendered by public educational institutions.

A *special assessment* is a compulsory contribution levied upon persons who are assumed to derive particular benefit from some public facility or service provided primarily for the general good: e.g., assessments for betterments levied on owners of property abutting on streets which are widened, paved, etc.

Questions

1. Do the fees incidental to litigation interfere with the proper administration of justice?
2. Would litigation be more prevalent and prolonged if all the expenses were borne by the government without the charging of fees? Would this promote justice? Would it be economical?

3. Is it desirable or fair to make the peaceable members of a community pay for the contentions of the litigious?

4. Do you know of cases in which the fees collected by public officials have exercised a demoralizing influence in politics?

5. Is special assessment an appropriate method of paying for improvements in a street (*a*) if the abutting property owners desire the improvement? (*b*) if they oppose it?

6. Do you know of cases in which special assessments have taken the form of exploitation of property owners for the benefit of the contractors who were given the job?

5. Taxation

a) *Canons of Taxation*

b) *Forms and Incidence of Taxation*

c) *Tax Reform*

"A *tax* is a general compulsory contribution of wealth collected in the general interest of the community from individuals or corporations by an exercise of the sovereign power of government, and levied without reference to the great benefits which the individual contributors may derive from the public purposes for which the revenue is derived."—*U.S. Census Report on Wealth, Debt, and Taxation.*

a) *Canons of Taxation*

i. The Principle of Benefit

ii. The Principle of Ability or Faculty

Taxation is the principal source of public revenue, yielding in this country about three-quarters of the total revenue of the government. Consequently it is of the greatest importance to devise a system of taxes which shall be in the highest possible degree efficient and equitable. Simplicity, stability, convenience and economy in collection, with the largest possible yield, are criteria of a good tax. The justice of different forms of taxation is tested by certain canons or principles of which the most important are considered below.

i. *The Principle of Benefit*

Questions

1. Would it be equitable (*a*) to tax German subjects in order to enlarge the British navy? (*b*) to tax citizens of California to build roads in New York? (*c*) to tax the citizens of the United States in general to deepen the harbors of coast cities? (*d*) to impose a protective tariff which raises prices throughout the country for the benefit

of a local industry? (*e*) to tax the rich for the support of poorhouses? (*f*) to tax the childless for the maintenance of public schools?

2. Should you agree that individuals should not be forced to support public activities from which they do not consciously benefit or that the burden of a given tax should be distributed in proportion to benefits received?

3. If taxation were regulated exclusively according to the principle of benefit, would taxes differ from fees?

4. Is it proper for the state to care for needy citizens? If so, who is to pay?

5. How could one determine how much a given citizen was benefited by the construction of a "Dreadnought"? by the maintenance of the Supreme Court of the United States?

6. Do the rich or the poor benefit more by the activities of government? Who is the more dependent on government: the man with much to gain or the man with much to lose?

ii. *The Principle of Ability or Faculty*

QUESTIONS

1. Can it be maintained that the well-to-do should pay more than the poor on any of the following grounds: (*a*) Because the poor have a right to be supported by the wealthy? (*b*) Because the possession of wealth is prima facie evidence that the possessor has enjoyed special benefits as a result of living under the government which he is asked to support? (*c*) Because on ethical grounds one should sacrifice himself for others as far as possible?

2. Is taxation according to ability a penalty on attainment and a premium for sloth?

3. What is the test of ability to pay? Is ability proportional to income? to property? Is it measured by excess of possessions above a minimum regarded as indispensable?

4. Are indirect taxes inequitable in that they raise for all persons alike the cost of necessities of life?

5. Is equality of sacrifice a satisfactory criterion of the justice of taxation?

b) *Forms and Incidence of Taxation*

i. The General Property Tax
ii. Customs Duties
iii. Excise Taxes
iv. Income Taxes
v. Inheritance Taxes
vi. Corporation and Business Taxes

i. *The General Property Tax*

QUESTIONS

1. Is the general property tax equitable? Is it effectual?

2. Who bears the burden of (*a*) an established tax on land; (*b*) a newly imposed tax on land; (*c*) a tax on old buildings; (*d*) a tax on new buildings?

3. Should real property and personal property be subject to the same sort of taxation?

4. What advantages has a high tax rate on a low assessment over a low rate on a high assessment?

5. Would a low rate of taxation on intangible personal property bring in more than a high rate? Why?

6. It is contended that the general property tax, by making it relatively unprofitable to hold landed property, encourages exhausting cultivation, slaughter of timber lands, and exploitation of natural resources in general. Explain.

ii. *Customs Duties*

QUESTIONS

1. What advantages does a system of customs duties offer as a means of raising revenue?

2. Would customs duties be a satisfactory source of revenue for the United States in time of war with a great naval power?

3. Make a list of the disadvantages of a system of customs duties.

4. Should customs duties for purpose of revenue preferably be imposed on necessities or on luxuries? On goods with an elastic or on goods with an inelastic demand?

5. Is a protective tariff an economical method of taxation?

6. Mention five commodities on which import duties for purpose of revenue would in the case of this country be especially appropriate.

7. Distinguish between specific and *ad valorem* duties. Mention a commodity on which a specific duty would be the better. Mention a commodity on which an *ad valorem* duty would be preferable.

8. Who bears the burden of a revenue tariff?

9. Who bears the burden and who gets the benefit of a protective tariff (*a*) in so far as the taxed commodities are chiefly imported? (*b*) in so far as the taxed commodities are chiefly produced within the country?

iii. *Excise Taxes*

QUESTIONS

1. Define excise taxes.

2. What advantages does a system of excise taxes offer as a means of raising revenue? How are excise taxes collected?

3. State the disadvantages of a system of excise taxes.

4. For purposes of revenue is it better that excise and customs taxes should be levied on the same or on different commodities?

5. Do excise taxes discourage home industries and favor the foreign manufacturer?

6. Should excise taxes preferably be imposed on necessities or on luxuries? What is the practice in this respect in the United States?

7. Are excise taxes in this country imposed strictly for fiscal purposes? May they be regarded as sumptuary laws, either in effect or by intention?

8. Who bears the burden of excise taxes?

iv. *Income Taxes*

QUESTIONS

1. What has been the chief obstacle to a federal income tax in the United States? Has this obstacle prevented state taxation of income?

2. What has been the chief obstacle to effectual administration of state income taxes? Would this difficulty have the same force in the case of a federal income tax?

3. What is taxation of income at the source?

4. For purposes of fiscal administration could income be satisfactorily defined? Does income include increase in the value of property?

5. Should income taxes be progressive? Should incomes below a certain amount be exempt from taxation?

6. Who bears the burden of an income tax?

7. Are income taxes in harmony with the principle of ability? with the principle of benefit? with the principle of equal sacrifice?

v. *Inheritance Taxes*

QUESTIONS

1. Should inheritance taxes be progressive? If so, should the progression be based on the amount of the estate, the amount of the specific inheritance, the amount of the previous property of the heir, or the degree of kinship?

2. How high a rate should you approve in taxation of inheritances? Has anyone a right to inherit? to unrestricted inheritance?

3. What inconveniences result from the separate administration of inheritance-tax laws by the several states?

4. Is it proper to tax an inheritance in more than one state? Is the tax in practice to be paid in the state of the testator, of the

beneficiary, of the location of the property, or of the trustee under the will?

5. Who bears the burden of an inheritance tax? Is the burden according to benefit? according to ability?

vi. *Corporation and Business Taxes*

QUESTIONS

1. Who really pays a tax levied on (*a*) the granting of a corporation charter? (*b*) the property of a corporation? (*c*) the franchise privileges of a public service corporation?

2. Is the value of a franchise an unearned increment? Should the total income attributable to the special privilege of the franchise be absorbed by taxation? Would such taxation be confiscatory?

3. What is the best test of the taxable value of a business?

4. Is a high-license tax on saloons a desirable form of taxation? Why? Who bears the burden of the tax?

c) Tax Reform

QUESTIONS

1. Distinguish between direct and indirect taxes. Is the distinction of importance in economics? in United States constitutional law?

2. Of the several forms of taxation which have been discussed, which, in this country, are primarily employed (*a*) by the federal government? (*b*) by the states? (*c*) by local governments?

3. Of our present forms of taxation which are likely to increase and which are likely to decline in importance with the progress of scientific reforms?

4. Is the need of government revenues increasing? Will taxation in the future be depended upon for larger resources than at present? Would a heavier burden of taxation furnish an incentive to tax reform?

5. Is the benefit theory or the ability theory of taxation the more acceptable at present? Does the movement toward larger functions of government indicate a growing belief in one of these theories rather than in the other? If so, which seems to be gaining ground?

6. Is a thoroughly good system of taxation attainable in this country without amendment of the Constitution of the United States? Do you expect such an amendment?

G. SOCIAL REFORM

I. Criticisms of the Present Industrial Order

II. Remedies Which Have Been Suggested

III. Suggested Ideals of Distributive Justice

Up to this point, the study of industrial society has been confined almost entirely to a study of things as they are—to an analysis of the present structure with but little reference to proposed changes. Many criticisms have been made on the present industrial order and many modifications of that order have been suggested. Some of these suggested modifications amount to revolution. Having made an analysis of things as they are, we are in a position to examine the criticisms which have been made and the remedies which have been advocated.

I. Criticisms of the Present Industrial Order

1. *Economic Defects*
   - *a*) The Defects of the Productive Process
     - i. The Wastefulness and Duplication of Effort
     - ii. The Artificial Stimulation of Wants
     - iii. The Carelessness in Conserving Human Energy
       - (1) Unemployment
       - (2) The Voluntarily Idle
       - (3) Industrial Accidents and Diseases
     - iv. The Adulteration of the Product. Salability, not Serviceability, the Test Applied
   - *b*) The Defects of the Distributive Process
     - i. The Great Inequalities in Possessions and Incomes
     - ii. The Unfortunate Situation of the So-called Lower Classes
     - iii. The Results in Checking Social Development, and Possibly Even in Checking Production
2. *Resulting Social and Political Defects*
   - *a*) Corruption and Favoritism in Government
   - *b*) Militarism
   - *c*) Vice and Crime
3. *Difficulty* (impossibility?) *of Remedying These Evils under the Present System*

Questions

1. Mention two cases of each of the above-mentioned defects of the productive process.

2. The investigators of the Pittsburgh Survey found that industries in the Pittsburgh district had resulted in 526 deaths from accident in one year. Is this due to defects of the present industrial system?

3. Is non-competitive enterprise free from waste and duplication of effort?

4. Is wastefulness an advantage in competitive industry? Could it be maintained that the stimulus of competition prevents waste more than it causes waste?

5. Which is the greater danger: that competitive industry will stimulate excessive and artificial wants, or that non-competitive conditions will result in neglect to provide for wants already felt?

6. How can it be argued that defects in distribution harm production and social development?

7. Are the rich growing richer and the poor growing poorer?

8. Is the *control* of wealth ever confused with the *ownership* of wealth in discussing the great fortunes of today?

9. Does the inducement to political corruption for individual advantage exist only where industrial conditions are professedly individualistic?

10. With what justice can the prevalent social and political defects be charged to the industrial situation? Does the mere fact that defects exist condemn a system? Is any system likely to be free from defects?

11. Make a list of forms of vice and crime which are fostered by the present industrial system, and show their relation to such causes as exhausting conditions of work, unemployment and want, chronic poverty, tenement and lodging-house conditions, etc.

12. Judging from what you know of the way in which development of any kind takes place, does it seem to you likely that one could reason out a system which would prove more efficient in production than one which has actually developed through decades? Do you think it reasonable to expect any sudden change in the characteristics of the factors of production?

13. When we speak of the economic inequalities of today do we mean inequalities of property or of income?

14. "There can be no real political democracy without industrial democracy." What does this mean?

15. Cite cases where fraud has been one of the forces in the present distributive process.

16. Does the present system seem to you to be mainly good with some defects, or mainly bad with some good points?

17. Make out a list of the good points of the present system.

II. Remedies Which Have Been Suggested

1. *Individual Reform*—the development of different ideals
2. *Social Reform*

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1. Individual Reform

a) *The Agencies of Individual Reform*
b) *The Significance of Individual Reform*

Questions

1. If all men were actuated by high ideals would it make much difference what the industrial system was? Should we do better to bring our attempts at reform to bear upon the individual, or upon the system?

2. Mention professions whose representatives are engaged primarily in reforming individuals. Mention other professions whose representatives are engaged primarily in reforming the social system.

3. Do you think that individual reform would react upon social reform? Do you think that social reform would react upon individual reform?

4. How can a person with good ideals make up his mind whether he should engage primarily in movements making for individual reform or in movements making for social reform?

2. Social Reform

a) *Reforms Involving No Vital Change in the Present Order*
b) *Reforms Practically Amounting to Revolution*

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a) *Reforms Involving No Vital Change in the Present Order*

i. Reforms Implying an Initiative from the Class Hoping to Be Benefited
   (1) The Trade Union Movement with Its Accompanying Policies
   (2) Co-operative Enterprises
ii. Reforms Implying an Initiative from Other Classes
   (1) Profit-Sharing
   (2) Philanthropic and Charitable Enterprises
iii. Reforms Implying a Measure of Governmental Regulation
   (1) Readjustment of the Burdens of Taxation—the Income Tax; the Inheritance Tax
   (2) Educational Facilities, e.g., Trade Schools

(3) Workingmen's Insurance and Old-Age Pensions
(4) Regulation of the Conditions and Terms of Labor, e.g., Factory Inspection and Eight-Hour Laws
(5) Direct Aid to the Needy—Poor Relief
(6) Miscellaneous Municipal Activities, e.g., Housing Laws, Public Parks, etc.

Questions

1. Which is likely to have greater success, producers' co-operation or consumers' co-operation (so-called)? Why?

2. Do you think that labor unions are likely to look with favor upon profit-sharing? Why?

3. If you were to select some particular form of profit-sharing, what would it be? Why this particular form?

4. Do you expect that either profit-sharing or co-operation will become general in the United States?

5. Cost of living is high. Would it be wise for a certain class of people (say college teachers) to form co-operative societies to secure their household provisions? What factors would make for success in such a venture? What factors would make for failure? Would it be apt to succeed better if membership were confined to one class of society?

6. Should the efforts of philanthropy and charity be directed more toward alleviation or toward prevention?

7. Which man renders the greater service, the soldier in the army or the worker in industry? Which more deserves a pension? Do you think that the United States should have a system of workingmen's insurance against sickness, accident, old age, and death?

8. Suppose that sick benefits, old-age pensions, etc. (if provided for) raise the prices of goods to the consumer. Do you think this is fair to the consumer who does not receive such a benefit or pension?

9. Is there more cause for inspection, regulation, etc., in industry than there was 150 years ago? Exactly why? Does the fact of more regulation prove that we are drifting into socialism?

10. Should the burden of workingmen's insurance be carried by the employer or by the state? Why?

11. What is meant by "employers' liability"?

12. Is there any element of co-operation in the present order? If so, what kind?

13. What is meant by fraternal insurance? compulsory thrift? housing legislation?

14. Is the right of inheritance a natural, inherent right? Is primogeniture? Give arguments for and against the right of inheritance. Give arguments for and against the right of bequest.

15. What are the grounds for labor legislation protecting women and children? Do these reasons hold equally well for such legislation for the protection of men?

16. Why is it more difficult to get suitable factory legislation in the United States than in England?

17. What is the "sweating" system? What are its chief evils?

18. In what industries is the sweating system most prevalent? How can its evils be eliminated?

19. Name five trades or occupations that are especially dangerous to workers. Should the state pass special legislation to protect the workers in such occupations?

b) *Reforms Practically Amounting to Revolution*

i. Land Nationalization (dealt with under Rent)
ii. Anarchism
iii. Communism
iv. Socialism
  (1) The Socialist Philosophy as Exemplified in
    (*a*) Utopian Socialism
    (*b*) Christian Socialism
    (*c*) State Socialism
    (*d*) Marxian Socialism
      (i) The Materialistic Conception of History
      (ii) The Marxian Theory of Exploitation
      (iii) The Doctrine of Capitalistic Contradictions, e.g., Crises, Concentration of Capital and Industry, Progressive Misery, Development of the Proletariat
      (iv) The Class Struggle and the Social Revolution
      (v) The Co-operative Commonwealth
  (2) The Socialist Movement
    (*a*) The Socialistic Program
    (*b*) The Organization and Size of the Movement
    (*c*) The Aids and Hindrances to the Movement

Questions

1. Work out carefully the distinction between socialism, communism, and anarchism.

2. Can you cite cases where economic conditions have determined men's views on morals, politics, philosophy, religion, etc.?

3. Do economic conditions determine these other factors, or do the latter determine economic conditions?

4. Do political parties represent the economic interests of contending groups of people?

5. Suppose it is established that labor is exploited by the employing class. Does that prove the Marxian theory of value and wages? Would there be any other remedy possible save socialism?

6. Is there a class struggle in the United States today?

7. Is there a growing concentration of wealth in the hands of the few? If so, why is this unfortunate? Is the concentration movement inevitable in all industries? If it is, is socialism the only remedy?

8. Is socialism to be judged by its ideal or by its probable workings? Do you think one should commit himself to socialism because its ideals are high? Are the ideals of the competitive system lower?

9. Draw up a list of difficulties which you think the co-operative commonwealth would experience.

10. Do you think anyone is sufficiently wise to predict the course of human development for the next one hundred years? Should you take the stand that any set program for the future is unwise?

11. Do you think that all the evils of today are due to any one cause? Do you think there is any one cure?

12. Does the present system stand committed to the continuance of present evils?

13. Do you think it possible for a government representing the workers to take over one great industry after another and to operate these great industries for the common welfare rather than for profits?

14. Suppose socialism were realized. What would be the effect upon rent? interest? profits? wages? Would there be anything corresponding to these shares? Would the underlying facts of production be altered?

15. In a collectivist state would the worker have any more freedom than he has today?

16. It has been said that progress implies the elimination of the "mere muscle man." Do you agree? Is his case becoming steadily worse under the present system? If so, would socialism continue that tendency?

17. Does the socialist urge equal distribution of wealth?

18. Many people are in reaction against the materialistic, mercenary tendencies of the present order. Is socialism materialistic? Does it appeal to mercenary motives?—T.

19. The socialists deny they would have a "dead level" society. They would permit inequalities of incomes and of possessions. Why do this? When they do this do they concede the usefulness of many of the motive forces of the present order? Do they retain many of the temptations of the present system? Will greed, competition, selfishness, and envy disappear under their scheme?

20. Would the necessity of taking industrial risks disappear under socialism? If not, who would be the risk-taker? Would it be done more wisely than under the present system?

21. Would the necessity of saving disappear under socialism? If not, who would do the saving and how? Would it be done more wisely than under the present system?

22. "We do not consent to honor the employing class with the splendid title of *laborers* because their whole effort is to devise ingenious and pleasing methods of subtracting their own subsistence from the earnings of the people." Does the ordinary employer *labor* in the ordinary sense of the word?—T.

23. "This bill is socialistic. It is based upon the acknowledgment of the supremacy of the state over property rights." Is this a correct test of what is socialistic?—T.

24. Is there a presumption in favor of state interference or against it? Is each case to be decided on its merits?

25. What are the main planks of the platform of the socialist party in the United States today? Is everyone who approves of any or even most of these planks a socialist?

26. Draw up a statement of the forces making for socialism in the United States today. Draw up a statement of the forces militating against socialism.

III. Suggested Ideals of Distributive Justice

1. *The Aristocratic Ideal*
2. *The Communistic Ideal*
   a) To Each According to His Wants (desires? or needs?)
   b) To Each an Equal Share
3. *The Socialistic Ideal*
   a) To Each According to His Labor
   b) To Each According to His Services to Society (presumably to be determined by a government bureau)
4. *The Competitive Ideal*
   a) To Each According to His Services to Society
      i. Measured in Terms of Utility and Not of Effort
      ii. Evaluated Not by Public Officials but by Judgment of Those Receiving the Service
   b) The Propositions Underlying This Ideal
      i. Each Individual of Mature Age and Sound Mind Knows His Own Interest Better Than a Body of Officials Can
      ii. Each Individual, if Left to Himself, Will Pursue His Own Interest

iii. All Harmful or Non-serviceable Methods of Pursuing This Interest Should Be Closed

iv. The Individual's Well-being Will Then Depend upon the Amount of His Service to Others, Whence a Great Stimulus to Service

v. No Hampering of Altruistic Motives. There is, However, a Utilization of Selfish Motives.

Note the substantial agreement of the stated ideals of the competitive and socialistic systems. They differ in the policy advocated to attain these ideals.

Questions

1. Should an unjust system of distribution endure? Is it likely to do so? What do you mean by unjust?

2. Do any of the following illustrate the aristocratic theory: primogeniture, right of inheritance, the closed shop, a caste system?

3. Can you think of any defense that might be made for the aristocratic theory as applied in an early civilization?

4. Can you construct any scheme by which each could have according to his needs? according to his wants?

5. All men are brothers. Should not there be equal sharing? If not, defend any other plan.

6. Suppose one were to accept the ideal "to each according to his labor." Does this mean physical labor, sacrifice, labor time, or results accomplished?

7. Does not the present system reward according to the significance the service possesses to particular individuals and small classes? May this not put a premium upon trivial or even immoral things? Would it be better to let a government bureau adjudge the worth of the service? How is this bureau to arrive at its standards? How apply them?

8. Do you see any difference between saying things ought to be thus and so and saying that the state should at once proceed to make things thus and so?

9. Does the competitive ideal seem to you harder to attain than the others? Is it good policy to utilize both selfishness and unselfishness?

10. Which is more important, approximate equality of possessions or approximate equality of opportunity? Do we have to destroy the present order to secure the latter?

11. With a more general diffusion of knowledge, culture, publicity, etc., is political democracy in more or less danger? Is equality of opportunity more or less likely to ensue?

12. Do you think that the indictments of the present order by men who are the results of this order indicate anything as to the possibility of improvement under the present system?

13. What real difference is there between the stated ideal of socialism and the stated ideal of the competitive system?

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